

Asset Misappropriation Fraud Case Study- How Covid related economic pressures is directing people to commit fraudulent acts

Enoch T. Osei
Bowie State University

Symon Manyara
Bowie State University

ABSTRACT

Families and economies have been devastated by the advent of covid related economic and financial burdens. While economies and individuals are looking for ways to survive, con artist and fraudsters are not taking any break in defrauding unsuspecting individuals. Non corrupt individuals have been corrupted and are looking for ways to survive. Employees within the retail sectors had sometimes taken merchandise home without paying for it to feed their families. Families have had their incomes disappear and some turned homeless. This case represents a case of how desperate people have become to survive. Its present a case study of how forensic investigations and fraud examinations are conducted. The case is particularly important to government, employers, educators, forensic accountants, fraud examiners and analysts in raising awareness on how desperate individuals at workplaces are willing to go to survive. It also provides direction what measures employers particularly those in the retail industry can adopt to prevent fraudulent conduct at the workplace during these desperate times.

Key words: Fraud, Internal controls, Investigation, misappropriation, Forensic accounting, consumer fraud, misconduct,

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INTRODUCTION

The advent of COVID 19 is creating an exacerbating hardship on individuals, families, and countries. The retail industry has been severely impacted by the advent of Covid 19 and has not been spared the activities of fraudsters during this pandemic. Consumer fraud is high during this period due to the economic hardship the virus is unleashing on families and individuals. Families and businesses have experienced their fair share of scams during this pandemic. Scams ranging from the sale of fake face mask to phishing emails have been popular. The pace of these fraudulent conducts appears to be rising faster than the rise of the virus itself. According to the Association of Certified Fraud Examiners (2020), research on consumer fraud, 90% of respondent answering questions of fraud questions on the impact of covid to fraud answered experiencing some elements of fraud request primarily through third-party seller and buyer scams on legitimate online retail websites. Similarly, PwC's Global Economic Crime and Fraud Survey 2020 notes that consumer fraud whether committed by or on consumers tops the list of economic crimes globally, in terms of incidence/frequency (35%) and impact (18%).

The retail industry appears to be harder hit with the effects of the virus as they have had to restructure their stores and warehouses to accommodate government regulations on social distancing. Scammers and Fraudsters understand the impact of COVID 19, and how its related disruptions have opened new opportunities and targets for their fraud schemes. Poor financial performance within the retail and wholesale sector and higher risks for job security when combined with lowering family income and emergent financial needs have led to extreme pressure on those desperate for relief, increasing their quest to commit fraud. Fraudsters are not taking any break hence consumers and merchants must always be vigilant.

Background of the Case

Joe, a warehouse employee of Save US Too Inc (a fictitious company) wholesale firm dealing in electronics is on the verge of becoming homeless due to Covid 19 financial pressures. His work hours have been reduced due to his firm's restructuring efforts because of Covid 19. His weekly hours have been reduced in half, affecting his total wages, and further complicating his inability to pay his monthly rent. His rent has been past due for the past six months. Due to state regulation, his landlord could not force an ejection order on Joe to leave the apartment building. However, time is fast approaching for a deadline for Joe to pay his rent. Joe has received a grant from the government for rent; however, it is not enough to sustain Joe to continue to leave in his apartment. Three months has passed, and Joe is still struggling with paying his rent. His landlord has served notice that in the next month if he is unable to pay the rent, he will be evicted. Joe's friend a security guy facing similar situation visits Joe and decides to move in with Joe to reduce their financial pressure. One evening, his friend asked Joe about taking a drastic action concerning their situation. He suggested the idea about to Joe about stealing high-end electronics at his warehouse and selling them to make to take care of their lives. After several resistance from Joe and the thought being homeless, Joe Joes finally conceived his friend's idea. and a plan was hatched on how to some electronic items including laptops, latest iPhones, digital cameras, high- end projectors and other high-end electronics could be stolen from Joe's company

The Case Study

As a Forensic Accountant of 7Links CPAs, Save Us Too Inc (the firm) has contacted your firm to investigate and prepare a report for a well-organized theft(s) occurring at their warehouse. The firm is a wholesaler that deals with high-end electronic products with prices ranging from \$1000 to \$15,000. The firm has June 30th year end and Inventory was undertaken in June 29, 2020. The firm's warehouse is equipped with hidden Closed-Circuit Television (CCTV) that captures events within the warehouse and 100 feet from the main entrance of the warehouse. The CCTV footage showed that consistently every night, a man in his forties would go through dumpsters of the warehouse and pack some boxes into a van and drive off. The man was always masked but luckily the number plate for the car used in his operations were captured. On June 30, after the inventory count, several empty boxes were noted on the warehouse which should have contained different electronics product. The vice president of loss prevention was alerted about the theft. He set up additional cameras to capture almost all the parameters of the warehouse and outside the warehouse without the knowledge of employees. On one night while on duty, the loss prevention team saw the masked man going through the dumpster of the warehouse and confronted him. Gunshots were fired by this dumpster guy and the Loss prevention team took cover and he sped off. The police were called to the scene, and they marked the place of the gunshot as crime zone. After statements were taken by the police, the loss prevention team decided to tour the warehouse and asked all employees working that night to close for the day. During warehouse tour, a phone was retrieved and the footage from the CCTV camera showed it belonging to one of the warehouse employees. This phone was handed over to the police and two weeks later, the police reported that call logs of the phone had a particular number it calls that coincide with the time shown on CCTV camera when the dumpster man undertakes his activities. Save Us Too Inc. has an insurance policy on their inventory. The firm has proceeded with its external audit but are unable to validate the amount of inventory till the investigation is complete and the amount of loss ascertained. As the senior manager of 7Links CPAs in charge of investigating this case and writing a report, the engagement partner at your firm requires the following in respect to the loss and an insurance claim.

CASE SOLUTION AND IMPLEMENTATION GUIDELINES FOR TEACHING

Learning Objectives

The above case presents an example of forensic accounting/auditing case that can be used in teaching both undergraduate and graduate forensic accounting class. Forensic investigation in many ways is like undertaking an audit but with an additional consideration. The learning objectives in this case include (a) accepting the investigation, (b) planning the investigation, (c) gathering of evidence, (d) report writing, and (e) court proceedings.

Accepting the Investigation

Forensic investigation starts with considering whether the firm has the necessary skills and experience to accept the work. Forensic investigation is specialized in nature and extensive knowledge of fraud investigation techniques and legal framework is required. Forensic

accountants must understand interview interrogation techniques and the maintenance of safe custody of evidence gathered. Robust safeguard must be in place if the firm provide both audit and forensic investigations services to the same client. In the US providing dual audit and forensic investigation for the same client might not be possible due to audit standard restrictions. Considerations for fees are very important and high fee level should be negotiated to compensate for the specialized nature of work and the likely involvement of senior and experienced members of the firm in the investigation. Students answering the case study must be able to underscore these relevant facts in their answers.

Planning the Investigation

In planning the investigation, it will be important to underscore the following: (1) the scope of work required for the investigation, (2) the responsibilities of the forensic accounting firm, and (3) the parties that will be relying on the report. This will inform the basis of the report. First, Save Us Too Inc. will require 7Links CPAs to quantify the amount of the loss and ascertain and identify if an employee was part of this theft. While the latter might not be explicit requirement to identify if an employee was part of the theft, it is implied requirement based on the facts of the case. The case will involve an investigation and fraud examination which requires evidence gathering and an estimation of the loss for an insurance claim. As part of the planning phase, it is also important to note that the forensic accounting firm owes secondary responsibility to the insurance firm and the external auditor. The insurance firm will rely on the estimation of the loss for the insurance claim and the external auditor will need the exact amount of the loss to adjust the inventory in the financial statement audit. It appears this case represents a criminal activity that could have resulted not only in the loss of inventories but also, the loss of lives. Save Us Too Inc will need also need to grant permission to 7Links CPA to communicate with police about the outcome of any investigations conducted. 7Links CPA will need to obtain information as to any actions taken by the police and if an arrest has been made. A copy of any police report will have to made available to 7Links CPAs. Since 7Links CPAs is not part of law enforcement, a copy of the report might be difficult to obtain. However, the insurance company and Save Us Too Inc. can require the reports and provide a copy to 7Links CPAs since they represent direct parties to loss. It will be important to interrogate employees that work at the warehouse to underscore if there is any link between them and the crime, that is if the police has not already done so.

Evidence Gathering and Procedures

In gathering evidence, the forensic accountant must underscore the type of fraud that has been committed and how it was committed. The sufficiency of evidence gathering will require the following: (a) proving the identity of fraudsters, (b) the mechanics of the fraud scheme, and (c) the amount of the financial loss suffered. Team members in the investigation should have the skills of evidence collection that can used in trial proceedings in a court case. Evidence must be safeguarded, and chain of custody must be maintained until presented as exhibits in court. Any evidence that is compromised and inconclusive would be challenged in court or become inadmissible. It is important for the investigative team to be conscious of destroyed, damaged, or falsified evidence by the suspect.

The following procedures will be required in the evidence gathering:

(a) Control Testing- One of the key activities that needs to be performed is the testing of controls. Control testing is important step in identifying what led to the fraud being perpetrated. From the look of things, an employee facilitated the theft by dumping inventory of items in the firm's dumpster. This type of fraud is categorized under asset misappropriation which is one of the most common types of fraud according to American Association of Certified Fraud Examiners (2014), Report to Nation on Occupational Fraud and Abuse. This is often the case because people have access to assets at the workplace. Forensic accountants assigned to Save Us Too Inc. will need to first identify and assess the level of fraud risk in each key control process. Questions such as who has access keys to back door and whether the back door access is secured with alarm when illegally opened is very critical. Also, access to alarm codes is very important question to ask. More so, it is important to ask whether CCTV cameras installed in the warehouse and outside of the warehouse parameter is functional. Control exceptions should be documented.

(b) Analytical Procedures: Analytical procedures should be performed to compare trends over time (see Appendix 1for financial statements). Beyond this current theft, there could have been several theft happenings within Save Us Too Inc. By performing analytical procedures on the inventory, the forensic investigator can form judgment as to possible losses occurring prior to the theft. The forensic investigator can then perform detailed calculations to ascertain the amount losses not only related to the robbery but also any theft occurring within the warehouse.

(c) Interviews: Interviews forms an integral part of the evidence gathering process. The ultimate objective of any forensic investigation is to obtain confession by the fraudster. Since the theft could have been aided by employee that work with Save US Too Inc. it is important not to confront any alleged conniver until sufficient evidence have been gathered to extract confession.

(d) Substantive Techniques: The CCTV camera capture forms part of substantive evidence for this investigation. It is important for the forensic accounting firm to understand the level of losses occasioned by the fraud by watching the CCTV camera. The forensic accountant should form an impression to determine what is contained in the boxes (i.e., Laptops, Mobile Phones, Security software, etc.). Boxes in the warehouse should be inspected in determining whether they contain their labelled items or are just empty boxes. The cost of each item in the boxes should be agreed to the accounting records such as invoice amount. It will be necessary to undertake inventory count of the boxes remaining in the warehouse and reconcile with the current movement of inventory amount. The case should be discussed with the police to ascertain if any of the stolen items have been recovered. It is noted in the case that the thieves used a van for their activities. The forensic accounting team should obtain the license plate and match to vehicle registration to ascertain the owner of the vehicles that is if the police report does not capture that information. The police might have already undertaken such searches and policy report might detail the owner of the vehicle. Tracing the owner to the van to his/her address and any linked employee might provide a clue as to whether an employee was involved. It will also be necessary to interview employees if the police have not already done so

(e) Reporting- The findings of the investigation will be available in report format to the Save Us Too. The report will contain information about investigation, the summary of evidence obtained, and conclusion as to the amount suffered as result of the robbery. The report will detail information about how the thieves were able to achieve their target and the controls that were circumvented to allow the fraud to take place. The report should also provide recommendation for improvements to the level of controls within the firm to prevent similar activity from occurring.

(f) Court Proceedings-Most Forensic investigations ends up in legal proceedings and it is likely the suspect if apprehended will be arranged in court and the forensic investigative team will be involved in the case. The evidence gathered will used by the forensic investigative team to assist the court in rendering judgment. In particular, the forensic accountant will be asked to describe their evidence and provide an explanation as to how suspect was identified. The members of the team must remain professional and present a clear and convincing evidence in simplifying complex accounting information to non-accountants involved in the case.

CONCLUSION

The economic and social impact of COVID 19 is devastating. Many families are at the risk of falling into extreme poverty. According to the World Health Organization (2020), half of the 3.3 billion global workforces are at risk of losing their jobs. Families are looking for ways to survive and without the means of earning income during lockdowns, many are unable to feed themselves and their families. The devastating situation leads people wanting to commit fraud to survive. The case above presents an example of how the effects of Covid 19 can create an undue economic burden on families and can lead employees to pursue fraudulent conducts to survive. Criminals are employing several techniques to steal from unsuspecting Americans. While people are scared about their finances and health; con artist appears to be having a field day in their fraudulent pursuits. The Federal Trade Commission (2021) reports \$399 million losses on consumer fraud were as result of the covid Covid virus. Consumer fraud has peaked during this pandemic and fraud schemes such as miracle cure for Covid 19 and attempts to sell everything from bleaches to colloidal silvers were on the rise. Consumer must be weary of providing their personal information to unknown sources. Before clicking on websites, texts, emails, direct messages, and calls, one must pause to question self about the legitimacy of these requests before proceeding. Firms must employ robust systems in their organizations to deter employees from stealing. Training on consequences employee fraud when caught should be emphasized in organizations.

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