Dental School Fraud Case Analysis

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How does the case relate to "Fraud Against Organizations" discussed in chapter 14 of Albrecht?

The case study information and chapter fourteen of the textbook confirm that Devlin and Jamison colluded in the fraud against the dental school. The text refers to this kind of fraud as occupational fraud. The text describes these frauds as one of the most prevalent against the organizations. The referred chapter in the case study lists embezzlement, theft (generally referred to as "asset misappropriation") and corruption. The suspicious actions of Devlin and his assistant Jamison breach the trust of the organization entrusted to them. Their actions deprived the dental school of its hard-earned resources; they indulged in corruption, embezzlement, asset misappropriation, record manipulation and forgery. All this confirms beyond doubt that Devlin and Jamison committed fraud against the school.

The 2010 ACFE Report to the Nation on Occupational Fraud & Abuse covers three types of fraud against organizations, namely Asset Misappropriation, Corruption and Fraudulent statements. According to this classification, Devlin and Jamison colluded to commit fraud on the count of Corruption and Asset Misappropriation. Asset Misappropriation includes disbursement fraud, whereby the fraudsters' actions force the organization to pay for something it shouldn't or pay too much for something. In this case study, Devlin and Jamison used fake invoices of the vendors for the school to pay for pay that it should not have ever paid. The details of the case study make the informed and educated readers believe that the vendors are also involved in the fraud as they have never supplied the materials to the school, or the supply was not that much, for which the payment was received. The store of the school had no record of the receipt of certain batches of the inventory; it proves that it is a kind of disbursement fraud where the chances of vendor involvement are very high.

The Occupational fraud and abuses impose enormous costs on an organization, in the case, study the total cost of fraud in undefined precisely. The dental school has done the right thing to hire a professional fraud detector, Chet Winslow. The text says that occupational frauds are not easy to detect, and the magnitude of fraud depends on the position of the employee in the organization and the network he or she forms to commit fraudulent activity (Fraud Examination, 2016).

Investigator Chet Winslow has done some things right and some things wrong in his fraud investigation. List the steps he has taken that were appropriate and state why they were appropriate.

The private fraud detector Chet Winslow has done tedious work to detect the fraud, its magnitude, and the fraudsters. He has taken a number of steps like he immediately sealed off the office that Devlin and Jamison had shared and began searching its contents and records. His second right step was to find the bags of expensive dental tools in Devlin's desk, tools that could be sold to dental students. It showed that the vendor supplied some materials to Devlin and Jamison for further sale to students, and the dental school had to pay its price for nothing.

Winslow rightly started reviewing the computerized master file of vendors. He was alone, and his shift to discovery sampling was the right step, considering the short time and non-availability of an assistant. He rightly found that there was no vendor application on file for Tate Supply (in addition, Winslow rightly found that there was no competitive bidding process in place). He rightly found that all of the invoices had been produced on a typewriter on regular bond typing paper. He has done a great job of finding that some invoices are even without numbers. The very prominent red flag in a fraud investigation is that the vendor has not provided his physical address, and there was only a PO box number. He rightly investigated and found that some items were not in the record of the storekeeper and store manager ("2 dozen ZZR terps"). His efforts to find the blank Tate Supply invoices during his search of the Devlin-Jamison office was another right step.

His move was very professional to check with the dental school's accounts payable department about the checks to Tate Supply that totaled $163,568. Further investigations unearthed the fact that Jamison always indicated that she would personally present the checks to Tate Supply (the school allowed vendors and employees to pick up checks). It shows that both employees colluded with the vendor to deprive the school of hard-earned resources. He seems to be a true fraud detector as he unearthed a person named Virgil Tate II, who collected cash on various checks issued by the dental school. He also unearthed that Virgil Tate II was in contact with the fraudsters to get information (additional verification, as noted on the backs of the checks) necessary to clear the dental school checks. All this proved that there was a collusion to carry on a vendor fraud.

Winslow very rightly contacted the authorities (county clerk's office and the secretary of state) to find the net worth analysis on Devlin and Jamison. The increase of $63,966 over the last two years in Devlin's net worth was not supported by his declared source of income. Although the net worth of Jamison showed no suspicion, the action of Winslow was right to include her in his investigations.
List the steps he has taken that were inappropriate or faulty and state why they were less than satisfactory.

Scheduling an interview with Janet Jamison, the administrative assistant who had worked under Devlin for seven years, was not the right step at the earlier stages of the investigation. Although the meeting never happened, as Janet Jamison left the office early on that day, it altered the culprits, and in this way, the chances of loss of evidence were very high. He made another mistake in tracking and contacting Devlin and informing him about an investigation for the dental school. It further altered the culprits, and as per details in the case, the steps bore no fruits. To inform Devlin about the unexplained assets found through the net worth analysis was a wrong step that increased the chances of loss of evidence and provided enough room for the fraudster to cover and justify his abnormal assets. In fraud investigation not only the nature of the action is important, but its timing is equally important.

Is there anything he overlooked?

He overlooked the internal control system of the dental school and the email and physical correspondence of the culprits. He only found the call records. He could not unearth the total magnitude of the fraud.

What control weaknesses can be corrected to prevent fraud from occurring again?

The internal control system of the school is very weak; they should not allow the check to be personally delivered to the vendors. The vendors may be added to the system if there is proper documentation as per prevailing internal control and fraud prevention criteria. The invoices may be verified by the vendor via email in order to reduce the risk of fraudulent payments; only numbered and verified invoices may be paid through cross-checks. No open or bearer checks may be issued. Invoices may be cleared only after the verification of inventory in the store (Forbes leadership forum,2016).

What next steps would you recommend Winslow take so that this story has a happy ending (from a fraud investigator’s point of view)?

Although his action has alerted the culprits, he needs to uncover the total magnitude of the fraud by a forensic investigation of the case. He has to hire an assistant so that the complete record for the tenure of the fraudster may be checked; there may be a chance that anyone other than these two may be involved in the fraud, so he may extend the scope of the investigation. He has to contact banks and vendors so that the complete network of the fraudsters may be unearthed. Once there is enough evidence against fraudsters, he may ask the school to forward the case to the police for its ultimate happy end.

References

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