



## **Fraud Case Study 1 – Key Points (Solution)**

Rosen chose Jackson from a pool of candidates and paid Spherion an \$8,850 placement fee. In early March, Jackson arrived at The Rosen Group's offices in the Mill Centre, a four-story 19th-century mill dominated by brick walls and grand windows. Jackson's assignment lasted three weeks, but he impressed Rosen. So she followed her instincts and hired him full-time.

"It was not his work so much as it was his persona, his attitude," Rosen says. "He was a really bright guy. Well-spoken. Well-cast. You'd have trusted him with your firstborn."

Jackson immediately seemed to prove Rosen's instincts right. He did his job. He befriended other employees. He missed only one week of work in late April, and one other day. Once, according to Rosen, Jackson said he had a family emergency and the other time he got food poisoning, an illness confirmed by a doctor's letter on hospital stationery. He was the kind of colleague who brought doughnuts in for everyone, recalls Kristi Halford, former public relations director for TRG. "He was so willing to help," says Halford. "He had a charm about him. He was like the perfect employee."

In July 2003, Wendy Rosen's outside accountant, Chuck Geser, was in the office reviewing some vexing bank statements. A large sum from checks that Geser couldn't find had cleared. "I'm drilling down on where this money went," recalls Geser, "when, literally right then, the phone rings."

In a coincidence of timing worthy of a bad movie, the phone call was from USAA Insurance, wondering why The Rosen Group had overpaid its account and submitted a \$1,500 check for car insurance. USAA faxed over the check. Geser and Lisa Brice, TRG's controller at the time, immediately noticed that the check came from the 900 number series, well out of sequence. Brice had been paying bills with 300-series checks. Brice must have felt dread as she connected dots: Months before, Wendy Rosen says, Brice's door had been tampered with. Now, checks supposedly locked in Brice's office were showing up, used. The checks must have been stolen.



Geser immediately suspected Jackson, who had access to the books. Geser also said that as he was hunting down the discrepancy, Jackson was allegedly trying to "plug the cash" an accounting term for adding journal entries to the books so that they match the bank statements.

With some evidence in hand, Geser asked one of Jackson's friends in the office, Rebecca Cason, to join him and confront Jackson. They cornered him just outside the building. Sternly, Geser demanded answers to two questions: Why did you do this? And how much did you take?

He was pretty cool," Geser later recounted. "He went into an empathy-sympathy mode. He said his grandmother or someone was sick and he needed the money. He said it was a few thousand dollars."

Geser told Jackson to go home, but that he was not fired. Experts say that was the right thing to do. When you have both evidence and a suspect, you want to keep him close, not have him flee. Having kept his job for the moment, fraud experts say, Jackson probably felt that maybe Wendy Rosen, whom he knew liked him, would show compassion and offer some amicable solution.

Jackson may have been at ease; Rosen recalls being "terrified." A whole series of checks were missing.

## Key Points

### 1. Three Elements of Fraud

A con artist requires three elements to commit fraud: *opportunity*, *motivation* and *rationalization*.

1. First, he must have the *chance* to steal money and,
2. Second, a *reason* to steal it (usually involving profit or revenge).
3. The third element is the unique part of fraud: He needs an *explanation* for himself as to why it's OK that he's doing it—an unappreciative boss, for example, or sometimes merely a big company that "won't miss the money."

Rahiem Jackson had ample *opportunity* to commit fraud: He was a bookkeeper. His *motivation* may have been profit, albeit tinged with altruism—a sick relative who needed money for hospital care. That also may have served as the



*rationalization*: As long as you use some of the money to help someone who's sick, it's OK.

## 2. Key actions of the fraud

Hodgson and other fraud experts appreciate the cunning, albeit typical, details of this scheme:

- The stolen checks came from the middle of a block of check stock to buy time before anyone realized they were missing. A single missing series also might look like a printer's error to the unsuspecting.
- When processed, 900-series checks wouldn't be so far out of sequence that they'd immediately raise red flags.
- Also, the higher number series ensured that illegitimate transactions would appear together at the bottom of a bank statement, making it easy to delete them without affecting the legitimate transactions on the statement.
- The primary question for Rosen was how 900-series checks had cleared in her company's name when her own statements showed no record of 900-series checks at all. Eventually Hodgson and Rosen cracked the scheme. Jackson had allegedly intercepted Rosen Group bank statements and used liquid paper to delete the records of the 900-series checks. He then made copies of the statements. The bastardized copies were passed off as originals and the stolen checks were then ghosts.

## 3. Prevention

- Clear segregation of duties (so that the only person handling bank statements is the one who's supposed to) not only reduces the risk of fraud but also increases efficiency in the company by not having tasks repeated or, worse, ignored.
- Accounting controls, such as having duplicates of financial statements mailed to your home or to a separate location, also double as part of a good disaster recovery plan, should one's office suffer catastrophic damages.