FRAUD CASEBOOK

FRAUD CASE STUDIES

Lessons from the Bad Side of Business

Edited by
JOSEPH T. WELLS

ACFE
Association of Certified Fraud Examiners

Fraud Casebook

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For Barry C. Melancon:
A true giant in the accounting profession

Contents

Preface

Fraud, as you will read in the following pages, is not committed by accounting systems or computers. It is carried out by living, breathing human beings who outwardly seem no different from you and me. Occupational frauds—those offenses that occur in the workplace—are all too common; nearly every company has been a victim or will be in the future.

It would be easy to say that this phenomenon happens because of greedy, dishonest people. But greed is a natural human trait. And all of us lie. So that explanation falls short of predicting who will turn to occupational fraud. More often, as you will see, fraudsters appear to be ordinary individuals who believe that they are caught in extraordinary circumstances. They are frequently upstanding, God-fearing, patriotic citizens who despise crime as much as the rest of us. Moreover, they don't really look at themselves as criminals. But they certainly are.

I have been fascinated with the motives and morals of white-collar criminals for close to 40 years. Preventing, detecting, and investigating fraud has become my life's work. It didn't start out that way, though; I graduated with an accounting degree and became an auditor before being accepted as a special agent of the Federal Bureau of Investigation. Fraud cases, large and small, were my bread and butter. After nearly 10 years, I left to start my own consulting firm specializing in white-collar crime issues. And in the late 1980s, I helped form the Association of Certified Fraud Examiners (ACFE), the world's largest antifraud organization, where I still serve as chairman.

Along the way, I've lectured to thousands of antifraud professionals, traveled to nearly every corner of Earth, taught in the graduate school at the University of Texas at Austin, conducted independent research on the causal factors of fraud, and written extensively on the topic.

This book, my thirteenth, pulls together the experiences of fraud examiners from across the globe, each of whom has provided details about a case he or she has investigated. Although the literary styles are as unique as the people who wrote them, all the chapters drive home a number of universal themes. First, those who commit fraud usually do so without a grand plan; instead, they made bad decisions, one after the other. Second, like water, fraud follows the path of least resistance. That is, these offenses are never more complicated than they need to be in order to accomplish the perpetrator's illicit goals. So you will notice that many of these schemes are the essence of simplicity.

Third, occupational fraud follows definite patterns. We first determined that fact in 1996 with the release of the ACFE's first *Report to the Nation on Occupational Fraud and Abuse,* which consisted of an in-depth study of over 2,000 actual cases furnished to us by certified fraud examiners. The *Report* has been replicated three times since then. We've been able to classify frauds by the methods used to commit them. There are three broad categories—asset misappropriations, corruption, and fraudulent financial statements—and there are numerous subschemes.

Fraud Casebook: Lessons from the Bad Side of Business is organized around these schemes, which has subsequently been dubbed the "Fraud Tree." Part I is devoted to the most common offenses, asset misappropriations. Part II covers corruption; Part III details fraudulent financial statements, the least common but by far the most expensive occupational frauds; and Part IV focuses on a variety of other fraud schemes.

Each case involves four areas. *Why* the fraud was committed is an important human interest story. *How* the fraud was committed gives the accounting and other technical details. *Lessons learned* offers sound advice on what went wrong. And *preventing future occurrences* shows what must be done to keep the same kind of schemes from happening again. You will notice that many of these stories don't have pleasant outcomes; justice was not served and lives were changed forever. My experience in this field has taught me that when fraud occurs, there are no winners. That makes prevention the ultimate goal. And that process begins with educating ourselves.

Lessons from the Bad Side of Business can be utilized by academics wishing to expose their students to the realities of fraud. It can easily be an accompaniment to one of several fraud texts, including my own, *Principles of Fraud Examination*. But practitioners, managers, and business owners will also learn a great deal in these pages. Finally, those with a general interest in occupational fraud will discover that this book is simply a fascinating read.

Thanks go first to the ACFE members who wrote the case studies. They didn't do it for money; the profits are earmarked for the ACFE General Scholarship Fund, which provides grants to deserving college students. Good writers know that there is nothing easy about this craft, and they are therefore commended for their efforts. Authors also are aware of the critical symbiotic relationship that exists with their editing team. John Gill, Kassi Underwood, and Andi McNeal of the ACFE Research Department did an outstanding job in that regard. Finally, I appreciate the assistance of Tim Burgard of John Wiley & Sons, Inc., who wouldn't give up until I agreed to take on this project.

Fraud is a serious problem that goes much beyond monetary losses. It costs jobs, raises, corporate reputations, and individual dignity. *Fraud Casebook: Lessons from the Bad Side of Business* will shed light into the dark corners of government and commerce so that we can hopefully avert, in the future, some of the same mistakes we have made in the past.

Joseph T. Wells, CFE, CPA
Austin, Texas
June 2007

PART ONE

Asset Misappropriation

CHAPTER 1

High Art, Low Value: How A Connoisseur Became A Convict

ELLEN A. FISCHER

If there were a law that required people to trade their names for a single adjective, Lawrence Fairbanks would be *Cosmopolitan*. A tallish, gaunt man of 45, Lawrence held the position of Assistant Vice Chancellor of Communications—the glitziest job in the glitziest department of Aesop University. In the vast sea of academe, Lawrence's ship steered clear of the lecture halls, laboratories, and weekly beer orgies on Fraternity Row. I doubt that Lawrence ever met a professor, much less a student. Instead, he sailed the waters of media and public relations. Lawrence was in charge of making sure that the university's good side was featured in every last magazine, newspaper, and brochure that dropped off the printer.

The position of AVC-Communications fit Lawrence like a second skin. He had been recruited by Aesop from a renowned magazine empire, and it showed. Two decades in the publishing world had secured him the professional trust and personal admiration of the writers, editors, photographers, and graphic artists who produced award-winning publications on behalf of the university.

Moreover, Lawrence wore the cultured charisma of a man well studied in the arts. His knowledge and taste far surpassed the better-known works you might guess on *Jeopardy!* or in a game of Trivial Pursuit. Lawrence was captivated by the black-and-white photography of the early twentieth century. He was versed in original oil paintings and ceramic pieces by important—though not mainstream—artisans in New York, San Francisco, and London. The breadth of Lawrence's interests included antiques—all kinds of antiques, ranging from old books to the earliest cameras, apothecary items, steam trunk luggage, and toys. Lawrence also had a fondness for period furniture of the sort you might find in a museum. Art was Lawrence's life.

Lawrence's high regard among the university communications creative staff was shared by the administrative employees who reported to him. Though fluent in the language of the elite, Lawrence Fairbanks was no snob. He always greeted the accounting clerks, the administrative assistant, and the receptionist by name. At Christmas, he arranged a destination luncheon and tour of the newly opened museum—the one that had a year-long waiting list. Every employee in the department was invited.

Lawrence's glad-handing social ease endeared his university colleagues and impressed the literati and glitterati of the media and art worlds. It also won him a lovely, intelligent wife. Having waited until his late 30s to marry, Lawrence was now the father of six-year-old Ruthie and three-year-old Bobby. It was touching to see how a keen art connoisseur had reserved the outer surface of his office desk as a minigallery for the framed works of his two little crayon masters.

Lawrence's wife, Allison, worked as a midlevel corporate attorney; despite their dual income, which exceeded $250,000 a year, the family home was unpretentious. In a city that sweats opulence, the Fairbanks' home stood unremarkably among other homes of its style in a neighborhood better known for its nearness to prominent cultural venues than its prominent residents. The cozy, single-story clapboard house of pre–World War II construction had three bedrooms and a single bathroom. It was just big enough for four people who, by all appearances, followed the script of the American Dream.

But there was more to Lawrence's life than his wife, his children, and his job—and there was certainly more than met the eye to the way he approached his love of art. Normally, when one speaks of a love of art, one refers to a hobby that provides enjoyment and enrichment. Normally, one's most cherished pieces are shared with family.

Normally.

We often hear that the most public personalities can mask the most private souls. And, while the inner reflections of a private soul are normal, the secret, shame-driven need for certain objects is called "obsession." No one—not even Allison Fairbanks—knew the extent of Lawrence's love for art, nor the lengths to which he would go to acquire it, hide it, and ultimately dupe employer and supplier alike into feeding his passion.

Art nourished Lawrence's troubled heart even as it starved his soul to death.

Art was Lawrence's life.

The Face of Many

Aesop University, the largest campus in a state university system, enjoys an eminence that rivals the Ivy League. Founded in 1871, Aesop grew from a state teacher's college to an institution with a world reputation for scholarship, research, and community service.

Modestly put, the university produces and attracts the "Who's Who" of every imaginable field. Every orange and burgundy sweatshirt in the student bookstore proclaims its logo, *Omnibus Punim,* which is translated to mean "The Face of Many." Aesop's family portrait includes famous actors, Olympic athletes, a Supreme Court Justice, and several Nobel laureates. The Aesop Medical School successfully pioneers new treatments for the most hopeless conditions. Its doctors have ministered to the destitute and distinguished alike.

On any give day, Aesop's total student enrollment reaches 35,000 among its undergraduate, graduate, and professional schools. To keep this educational behemoth running, Aesop employs upwards of 25,000 staff and faculty. And though situated in the highest-rent district of one of the three largest cities in the United States, Aesop's 500-acre campus has earned the *über*-school its very own zip code. Aesop's football team, the Thundering Bison, has secured the celebrity campus a regular spot on the 11 o'clock news. More important, its $3-billion budget has won it a set of permanent box seats in the crosshairs of the state legislature.

The university's in-house business and technology experts have patiently guided this tradition-steeped grandfather of higher education toward the Information Age. With the steady, gentle prodding that got Daddy to trade his turntable for a CD player, Aesop eventually migrated from its old record-keeping system of manila folders and microfilm to the "Give-it-to-me-now!" world of computers.

By the mid-1990s, Aesop's entire purchasing and accounts payable system was computerized. Just enter a log-on ID and password, and an authorized employee is soon staring at any financial transaction processed in any of the university's departments. Push another few buttons, and you'll know which employee entered a purchase request before he or she fired it off to the campus's central Accounts Payable Department. You'll see the serial number of the university check and the day it was cut. You'll even know whether that check was sent out to the vendor through the U.S. mail or whether it was first sent back to the department that requested the payment.

Any business with as many moving parts as Aesop University must make sure that its bills are paid efficiently, but not recklessly. So along with the streamlining of the accounts payable process comes a few built-in security measures. One big safeguard is the university's purchasing policies—in particular, the policy that dictates spending limits.

Aesop's "Low-Value" Purchase Delegation Policy places a ceiling on how much any one campus department can spend with a single vendor on a given day without obtaining formal approval from the Central Purchasing department. Exceeding that limit causes the Materiel Acquisition and Disbursement (MAD) automated system to halt a department's purchase request and reroute it to campus's Central Purchasing unit.

That is, if more than $2,500 worth of business per day—plus a small additional margin for tax and delivery—is going to any one supplier, Central Purchasing will automatically gain control of the purchase. There are all kinds of good reasons, too—for example, making sure that old Aesop, a public university, is given the best deal in the marketplace and that it obeys a long list of state and federal laws.

You can almost see the buyers in Central Purchasing standing there, sneering, arms folded, tapping their feet and wondering what the accounting assistant in the Norwegian Poetry department was thinking when he ordered $2,984.32 worth of Viking translation guides from the Oslo Down company. That type of order immediately results in an e-mail from one of those sneering foot-tappers to the immediate supervisor of the accounting assistant in the Department of Norwegian Poetry.

You might question how a fiscally responsible outfit could extend so much green rope, every day, to a few hundred campus departments. Yet that is exactly the rationale behind the Low Value Purchase Authority—a mouthful of a term that simply means that a $3 billion university is placing up to $2,500-and-change worth of trust in any one department to buy whatever it needs from a single vendor on a given day.

The Low Value Order (LVO) policy allows an organizational giant like Aesop University to function more efficiently by not paralyzing Central Purchasing with routine, nonrecurring purchases. Sure, it involves a measure of risk, but the alternative is a mountain of overdue payments and a premier university with some really bad credit.

Aesop University's purchasing policies and automated safeguards served the institution well. But not for long.

Designing a Fraud

It began with a midmorning phone call from a hoity-toity furniture store—the kind that omits the word "furniture" from its name. A man identifying himself as "Squire's chief financial officer" called the Aesop University Internal Audit department and told our receptionist that he needed to speak to an auditor. He had to report a fraud.

Our receptionist directed the call, just as she did every other one that struck her as odd, to me. I am one of 25 audit professionals in the Aesop Audit department. Since Aesop is the largest of the 12 campuses in our state university system, there is more than enough work to occupy an audit staff of our size.

Ours is a department of specialty units dedicated to particular areas of the campus such as health care or, in my case, a specific discipline like forensics. Although six of us are Certified Fraud Examiners, I am the audit manager of investigations. That is, I am responsible for looking into matters of alleged financial misconduct. Or to be less euphemistic, alleged stealing.

I answered my ringing extension as I always do, with my first and last name. Satisfied that he had an auditor on the line, Mr. CFO repeated his announcement—he was calling to report a fraud. He knew it was fraud because Mr. CFO had previously been an auditor for a "Big 8" accounting firm.

Mr. CFO then informed me that he was holding a photocopy of Invoice Number 5432, bearing Squire's logo. The invoice, in the amount of $2,664, requested payment for "design and illustration services." It also made reference to one of Aesop University's fancy publications, *Bison Quarterly,* a glossy magazine with feature articles on our institution.

Mr. CFO continued. Invoice No. 5432, he said, was accompanied by a recently cut university check in the same amount, payable to Squire. Lawrence Fairbanks, the Assistant Vice Chancellor who oversaw our university's publications unit, had authorized the payment.

Fairbanks's signature was more than legible—it was artistic. Moreover, the billing and shipping addresses were in care of his university office.

"Just a minute," I said to Mr. CFO. "I can look up the invoice on our system." Using our MAD system, it took all of 90 seconds to get the electronic version of Invoice 5432 on my computer screen.

"Okay," I said. "Invoice 5432 certainly looks like a normal type of expense for the Communications Department." But, I wondered aloud to Mr. CFO, why was a furniture store calling me to discuss it?

Then the explosion:

Mr. CFO explained that the hoity-toity store personnel immediately recognized Lawrence Fairbanks as a regular customer, but they didn't know—or care—about his fancy university title.

And, while the invoice copy that accompanied the university check described "design and illustration services" for *Bison Quarterly,* Squire's own copy of that same invoice instead authorized the fabrication of a one-of-a-kind chaise lounge. Prophetically, this chair—or rather, this *chaise*—was named "Ophelia," the psychologically and physically doomed heroine in the Shakespearian tragedy *Hamlet.*

As I silently recalled a verse from our high school production, the Bard was trumped by this chilling quote from Mr. CFO:

"Lady, I don't know squat about magazines. Should I make the chair or not?"

Just the Fax

If there's one thing I know, it's that big guns make big holes, and I sensed that Mr. Lawrence Fairbanks had fired a cannon. I asked Mr. CFO to fax me everything he had that pertained to Invoice 5432. Within moments, I heard the tinkling of the fax phone in our copy room a few yards away from my office.

As I lifted the warm pages from the fax tray, I first inspected Invoice 5432, for $2,664, the version that Lawrence Fairbanks had enclosed with the university's check. It read "design and illustration services for *Bison Quarterly.*" Along came a copy of a low-value purchase order (LVO, for short) in the amount of $2,400. The $264 difference was for sales tax and delivery.

Finally, the fax printed out Squire's version of Invoice 5432. It looked similar to Aesop's copy. The layouts of the invoices were identical. The billing address, "Mr. Lawrence Fairbanks, c/o Aesop University Communications," was the same. Even the boxy, 3-D logos at the top center of the invoices matched.

But the descriptions of the purchases did not.

In the body of the Squire invoice, in place of "design and illustration services," were details for the fabrication of a one-of-a-kind "Ophelia Chaise." It gave precise instructions for the fabric and color—mauve damask, to be exact. It also contained a note that Squire was to contact Lawrence Fairbanks when the chair was ready.

While my first impulse was to carry my handful of trouble straight into the office of the audit director, Frank Adams, I slowly walked back to my own office to eat a banana and contemplate. Was this a one-time indiscretion on the part of a respected university official, or was this a slip-up in an ongoing scheme?

I clicked my mouse on the icon that led me back to MAD, and I input the department code for University Communications. The department had a $4 million annual budget. If I was going to find more examples of the "Squire type," I knew that I would have to drill carefully. I started by typing the four-digit code that the University Communications department used to identify publications expenses on the ledger.

A list of transactions cascaded down my computer screen. As I scrolled through them, I noticed that many of the amounts over the past year or two were under $2,500— many by only a dollar or two. I also noticed a number of "regular" payments in identical amounts, paid to the same vendors over the course of two to six months. The amounts were rarely under $1,000 and never more than $2,499.

I clicked open 20 payments. The online LVO and invoice details were similarly worded: "design and illustration," "stock photos," "reprints of original artwork," or "printing and layout." All made reference to an Aesop magazine, newsletter, or brochure.

Next, I examined the vendors' addresses. One was in San Francisco, another in New York, and still another in Chicago. Publishing ignoramus that I am, it made no sense that so much of the design and illustration work was done out of town. I chose one vendor named Lincoln Photography, partly because it had a San Francisco address and partly because MAD displayed six consecutively numbered invoices under the low-value threshold.

I Googled the address. Not surprisingly, what I got back was not Lincoln Photography, purveyors of stock shots, but Lincoln Galleries, exclusive dealers specializing in early twentieth-century black-and-white photographs snapped by artists who probably tortured themselves to death.

Finally, I broke the news to Frank, the audit director. He listened to my account of the phone conversation with Mr. CFO, the faxed Ophelia Chaise invoice, and the low-value payments to out-of-town art galleries. Frank uttered a one-syllable expletive, and, with that colorful pronouncement, he authorized me to proceed with a full investigation.

The central purpose was clear: to identify the bogus invoices, to quantify the total loss to Aesop, and to collect the evidence to prove it to the university police and the district attorney.

I started by isolating payments that fit a handful of criteria:

- One or more payments to a single vendor
- Under $2,500
- Consecutive or closely numbered invoices
- One-word vendor names
- Vendor address out of town, or out of the United States, or in a major city
- Vendor address in the "artisan" sections of our city

Given that University Communications was an artsy kind of business to begin with, I expected that my initial search for phony transactions would include some that were really A-OK. Yet I wanted to make certain that I wasn't dancing over any rocks that were covering up snakes.

Eventually, I identified 52 vendors and 200 LVO purchases that spanned a three-year period, and I obtained copies of the front and back of each cancelled university check.

You Can Take It to the Bank

As the paper drifted in, I started matching up the endorsements on the backs of the checks with the vendor names on the in-house versions of the invoices. Some of the mismatches were so obvious, it hurt. For example, the check that Aesop issued to "Redhill Publishing" in New York City was endorsed and deposited by "Redhill Antiquarian Books." The payee names on the checks were always close enough to the vendors' true names that they were less likely to notice the "slight" inaccuracy. In the end, vendors are far more concerned that the checks they deposit stay deposited—and you can take an Aesop University check to the bank.

Discretion was not only the better part of valor; it was the only way to keep an investigation of a high-profile character from a famous institution from being publicized prematurely. During these early stages, when we only had one invoice for a fussy purple chair, Frank decided to inform only his boss and campus in-house attorney.

My challenge was to have the vendors respond to my requests to mail and/or fax me copies of the authentic invoices without tipping our hand. Anyone who calls our main office number reaches a recording that announces, "You have reached the Aesop University Audit Department." I came up with a way to minimize the perceived stature of the department by transforming my name from Ellen the Audit Manager into Poor Ellie the Temporary Bookkeeper. Sure, Mata Hari is a more exotic nom de guerre, but Ellie was easy to remember.

I timed each call toward the end of the business day, adjusting for different time zones. That way, whoever answered the vendor's phone would know that Poor Ellie was stuck working late. I began each call by raising my speaking voice half an octave and beginning with the words "Um, hi."

The story was pretty much the same: Poor Ellie was slogging her way through thousands of university payment records. She had to make sure that Aesop's main Accounts Payable department had a copy of each and every invoice that it paid over the past three years. For some reason, the university lost a slew of invoices during that time, and Poor Ellie had to ask the vendors for copies. Poor Ellie had to get the job done—or else.

Pathetic? Sure, but it worked. In came the proof.

Fairbanks's methodology was obvious. He not only had doctored the description of the purchases, but he applied his own artistic flair—and some common desktop publishing tools—to redo the vendors' logos. In some cases, Fairbanks created a new letterhead for the vendor, eliminating telltale verbiage like "dealers in antiques since 1947" that might have alerted the support staff in University Communications and campus Accounts Payable.

Over three years running, Lawrence Fairbanks spent $475,000 of Aesop's money on lithographs, serigraphs, original oils, photographs, antique luggage, books, and cameras. Cartoons, sculptures, and ceramic pots. Strange space-age looking lamps with Swedish names. More fussy chairs. A phrenology head and three taxidermy specimens—all encased in glass; all incredibly dead.

It was time for me to interview Assistant Vice Chancellor Lawrence Fairbanks. Frank and I first met with Fairbanks's boss, Lennie Scott, to give him the background of the case and to solicit his assistance in getting Fairbanks to submit to an interview. Scott was surprised and outraged. Within 30 minutes of our meeting, he sent us a copy of the e-mail in which he instructed Lawrence Fairbanks to come to the Aesop Audit Department at 10 a.m. the following day to discuss some questionable transactions.

Decorating the Trap

Before Fairbanks arrived, I did some interior decorating in our conference room. On our massive, bleached oak conference table, I arranged the files for the 52 vendors in five open cartons, so that the folder tabs with their names were visible. Along the way, we also had gotten a private investigator to take snapshots of the buildings of the 30 or so local galleries and furniture stores that Fairbanks patronized. I opened the photo album to the picture of the Squire storefront and set it at the edge of the conference table, nearest the door.

Fairbanks couldn't miss it.

Lawrence Fairbanks arrived at the Aesop Audit Department reception area at 10 a.m. sharp. Frank and I each shook Fairbanks's hand outside the closed door of the windowless conference room where I had set up shop.

Frank led the way in and sat in one of the chairs across the table from where Fairbanks and I would sit next to each other. As I had learned in several Certified Fraud Examiner training seminars, my sitting beside Fairbanks would allow me develop the rapport that would, with a measure of luck, lead to his unburdening.

Neither Frank nor I expected what Lawrence Fairbanks did next. Upon eyeing the opened photo album and the cartons arranged on the conference table, Fairbanks pivoted on his heels, marched straight out of the room, and, with increasing velocity, through the reception area and out of the suite. I heard no *ding* from the elevator—he had taken the stairs.

Early that afternoon, Frank received a call from the campus attorney whom he had notified earlier about our investigation and our pending interview of Lawrence Fairbanks. Upon leaving the Aesop Audit suite, Fairbanks did not stop until he reached the office of his attorney, Arnold Kruger.

Kruger assured the campus attorney that Lawrence Fairbanks would return to Aesop Audit the very next morning and that he would cooperate fully in an interview. But there was a catch. Apparently, the connoisseur had kept nearly everything that he had purchased and was offering to assist the university in recouping the ill-spent funds by selling off the goods. Kruger was trying to dissuade Aesop's officials from prosecuting Fairbanks in the criminal arena by allowing him to make the university "whole" again.

Then there was the sympathy factor: Kruger explained that Lawrence Fairbanks was a very troubled soul who had been under psychiatric care. He was not a thief; he was sick, and he was prepared to make it all up to the university. The campus attorney told us that he would not recommend that criminal prosecution be avoided. However, he did make an agreement with Kruger that the university would support his client's efforts to mitigate the loss.

The next morning, Lawrence Fairbanks returned to the Aesop Audit conference room. Slouching in a maroon V-neck sweater, a 1960s rock band haircut overshadowing his ashen face, the connoisseur confessed. In carefully measured sentences, Fairbanks recounted how he got away with his first purchase—a $10,000 oil painting that he split into four "low-value" orders for "design and layout" services. In the earlier days, he would take an actual invoice, cut and paste the logo into a less telltale version of the vendor's name onto another sheet of paper, and photocopy the whole thing. Then he discovered it was easier to fabricate the entire invoice using simple word processing graphics. He began to crack a faintly proud smile.

"How did the vendors react to getting checks drawn on Aesop University's bank account and not yours?" I asked.

As I had guessed, the vendors really didn't care, and Fairbanks knew they wouldn't. Aesop is a player in the art world, and Fairbanks's position in the university was prestigious. No one questioned the fact that the checks were coming from Aesop. A few must have assumed that Fairbanks was purchasing art and fancy furniture on the university's behalf.

"Who else in University Communications knew what you were doing?" I asked.

Eyes intense, Fairbanks adamantly replied, "No one!"

Fairbanks explained that, as with most top-level officials, he did not do windows. That is, he had administrative employees processing the invoices—the sanitized versions. He even knew how to skirt the "checks and balances" in his department that provided for a secondary review of each transaction by an accounting supervisor. So long as there was a budget for the "publications" purchases, the busy accounting supervisor, always immersed in details, was not going question him.

And what of Fairbanks's wife?

With downcast eyes, Fairbanks began to sob as he proclaimed how much he loved Allison and dreaded how this was going to shatter her life. She knew nothing of his purchases.

A Thieving Pack Rat

But, how did Fairbanks keep Allison from knowing? Did he bring the merchandise home?

"No." He sighed. "That is my sickness."

Fairbanks unfolded the story of a poor child peering through store windows in a depressed downtown area. It had been his goal to gain the education and social standing that would gain him the finest things that money could buy. Along the way, Fairbanks branched out from the banality of department store goods and into the esoterica of fine art and antiques.

Even more than the acceptance he enjoyed from the art world, Fairbanks was following a noble calling. He was saving old, dark photographs of people who didn't matter anymore, even though their images had become collectors' items. He was preventing old books, antiques, and the strangest objets d'art from being erased from their place of honor in the world. And he was creating new pieces—like the Ophelia Chaise—that would be the antiques of tomorrow.

They mattered; he mattered. And he kept them from harm's way in a public storage facility. Over the past three years, Fairbanks had rented three contiguous storage rooms in one of those "You-Haul-It, You-Store-It" places. Many items, he assured me, were still in their original packing.

Aesop University was not paying for the storage. I checked.

Before our interview concluded, Fairbanks had a question for me. I thought he was going to raise the usual concerns about what would happen next, whether he would go to jail, and so on.

Instead, he startled me by asking, "Tell me—is this the most sophisticated scheme you've ever seen?"

Not vindictively, but honestly, I replied, "No, Lawrence, it isn't."

As Fairbanks ambled out of the Aesop Audit suite, he looked more insulted than contrite.

The police and the district attorney pronounced the case a "slam dunk," and Fairbanks was sentenced to full restitution and a one-year house arrest.

In a sweet, three-bedroom home of prewar construction, Allison, Bobby, and Ruthie Fairbanks were awakened from the American Dream. Allison divorced Lawrence and moved out of state. At the conclusion of his house arrest, Fairbanks moved to the same city, to be near the kids. He now supports himself as a freelance magazine writer on the subject of arts and culture.

Lessons Learned

Our investigation provided incontrovertible proof of Aesop's monetary loss of $475,000, not to mention a detailed confession. However, we all agreed that the process would have been a lot easier had Lawrence Fairbanks set fire to his acquisitions or dumped them in the river.

The investigation in the Audit Department was within our control, but the agreement between Arnold Kruger and the campus attorney was not. We all intuited that the sale of the Fairbanks collection would not abolish the loss or, as Fairbanks optimistically asserted, net Aesop a profit. However, the university now was obliged to take custody of, and account for, all of the merchandise that awaited us in the three storage lockers.

As auditors, Frank and I knew better than to handle it ourselves. We called in experts. On a wet, dreary November morning, clad in blue jeans and old sneakers, I joined two similarly attired curators from the Aesop University art museum. Lawrence Fairbanks met us, keys in hand.

I had come to the storage facility equipped with an Excel spreadsheet that served as an inventory of all of the items from the vendors' actual invoices, including a title, physical description, and, where applicable, the artist's or gallery's serial number.

The curators brought two cameras, kid gloves, bubble wrap, and a university truck to transport the collection to a secure room that had been reserved in the Aesop administration building. The door to the secure room had been outfitted with an emergency installation of a dual-custody lock. One curator had a key; and the offset key was given to the receptionist of the area outside of the secure room. We planned it so that both "unrelated" employees had to be present in order to admit the appraisers and, eventually, the buyers.

Again, as auditors, Frank and I would not take custody of these unwanted assets. Still, we knew that we had to play a major role in protecting Aesop from being accused of breaching the attorneys' agreement—or even compromising the criminal case—if one of the purchased items had been "lost" or damaged.

Lawrence Fairbanks raised the first of the three corrugated metal doors to reveal a fully packed locker. It looked just as he described it—most of the items were still in their original cartons, unopened.

All day long, the curators methodically opened each carton and removed the pieces. We jointly identified the pieces, and as I checked off each item, both of the curators, Lawrence Fairbanks, and I each initialed the line item on the Excel spreadsheet.

The curators placed index cards bearing the inventory number that I had assigned in front of each piece, and they simultaneously photographed the items. We wanted to make certain that, if one camera failed, there would be a second photograph.

The curators then encased each item in bubble wrap, affixed a sticker bearing the same inventory number, and loaded the pieces onto a dolly. When the dolly was full, Lawrence Fairbanks would close down and lock the metal door, and he and one of us would "escort" the dolly to the truck. The driver, an experienced employee of the Aesop Museum, would carefully load the objects into the back, as Fairbanks watched.

We would not allow Fairbanks to leave our presence while either the storage lockers or the truck were unlocked. Finally, when the process was complete, everyone, including the truck driver, signed the inventory listing, which I took back to the Aesop Audit Department. I immediately faxed the listing to all who were present at the storage facility and to Arnold Kruger and the campus attorney.

For several months beyond Lawrence Fairbanks's house arrest, University Communications served its own time with some heavy-duty bookkeeping that resulted from the attorneys' agreement. It was quite a burden as the auction houses dribbled \$100,000 worth of sales proceeds, in piecemeal fashion, back to Aesop.

I didn't ask what became of one of the more curious items, "squirrels under glass," after one of the curators mentioned that it is illegal to sell taxidermy specimens in this state.

The biggest lesson in all of this—and one that served us well—was that an investigator will, at some point, lose complete ownership of the case. As auditors, we were not in the position to tell the campus attorney to back off from an agreement with the subject's lawyer—one that almost created more work than the investigation itself.

However, by adopting a flexible posture and applying our expertise in the areas of record keeping, safeguarding, and accountability, we were able to exert our own special brand of control over an unexpected complication.

Recommendations to Prevent Future Occurrences

Separate Accounting Duties and Implement Secondary Purchase Approvals at All Employee Levels

Assistant Vice Chancellor Fairbanks was uniquely positioned to commit major fraud through his position of authority and trust in the Aesop Communications Department. Traditional business controls, such as separation of accounting duties and secondary approvals of purchases, were limited to subordinate staff in the past. High-level officials were practically immune to scrutiny, which enabled Fairbanks to rack up an astronomical bill in fraudulent activity. It is important to separate accounting duties and have secondary approvals of purchases, regardless of an employee's rank.

Monitor for Suspicious Activity

A member of senior finance staff—not a department-level accountant or any of the subordinate departments—should be hired as an independent monitor for the entire organization. The monitor should look for signs of trouble: repeat payments to the same vendor, payments just under the low-value threshold, vendor names and addresses that seem incongruous with the online descriptions of the expenses. The monitor should report anything that appears strange or suspicious.

Redefine Job Descriptions to Maintain Integrity

Human resource experts should review and update the accounting supervisor's written job description. The supervisor should understand that she is as responsible for the integrity of the expenses she approves as she is for the bookkeeping detail.

When the accounting supervisor in Aesop University Communications accidentally took delivery of a large package from the San Francisco–based Lincoln Galleries, she immediately recognized the address from the many invoices she had approved for Lincoln Photography. The supervisor said that she had a "funny feeling" about the package. She was not afraid of angering Lawrence Fairbanks by questioning him about the delivery. To the contrary, the supervisor was more fearful that a serious inquiry might cause unnecessary harm to her boss's reputation.

The accounting supervisor lacked the healthy perspective of an overseer. She was entirely focused on making sure that the individual "publications expenses" were charged to the correct ledger codes and that they fit safely over the bottom line. A specific job description that clearly stated her duties may have prompted the accounting supervisor to inspect the package more closely and put a stop the fraud in a timely manner.