



Chapter: Privacy and Business Ethics

Activity Name: Dealing with fraud

Review the following scenario and respond to the questions below:

A manufacturing company has production facilities in Europe. While the company has been expanding rapidly over the last several years, the VP Production continues to have oversight responsibility for the European-based production facility. As such, she is required to travel extensively.

The company's travel policy indicates that employees are entitled to fly business class for any flight over 4 hours in duration. Most VPs have their assistants book their travel. However, the VP Production prefers to book all travel personally, through a travel agency, which apparently is owned and operated by the VP's husband.

Given that the production schedule is known well in advance, the VP Production has put forward a business case to purchase airfare several months prior to travel, on the basis that the company saves money. Given the cost of such fares, the VP Production obtains a cash advance from Accounts Payable to purchase the airfare and then later claims the expense on her expense report.

While travel is supposed to be booked on company-issued credit cards, the VP Production claims that her personal credit card has better travel insurance and therefore pays for the travel personally and seeks reimbursement through an expense report.

At this company, VP's expense reports are reviewed by the CFO (although the CFO has been known to "blindly" sign off expense reports with little or no scrutiny).

On occasion, the VP Production entertains colleagues at the overseas production facility. Rather than submitting receipts, the VP Production simply submits her credit card statement, claiming "it's easier to keep track of expenses".

Last month, the VP Production took a family vacation that piggybacked one of the scheduled visits to the European-based production facility. The CFO recalls noticing that travel expenses of that particular quarter (i.e. coinciding with the VP of Production's vacation) far exceeded comparable quarters in previous years.

The VP Production has increased the frequency of her trips to the European plant, claiming that they are in the process of retrofitting the plant to

accommodate a third shift (Note: This planned expansion has been going on for over two years, although it was expected to be completed in less than 6 months). The VP Production claims there are logistical issues that are preventing the completion of the retrofit.

The VP of Production has been doing a lot of renovations at home.

REQUIRED: Working in your assigned group, discuss the following in regards to the above scenario:

- a) What elements of the fraud triangle are present?
- b) What are potential red flags or indicators of fraud?
- c) What are the potential fraud scenarios that may be occurring?
- d) What are some of the internal controls that could help prevent/detect the fraud scenarios identified in (c) above?