



KLINK

Finishing Fraud

Case Study: Vendor Fraud

OVERVIEW

A large U.S.-based manufacturer invested millions of dollars to build a Chinese manufacturing plant. The plant would be run by Taiwanese management and employ local Chinese workers. The facility would operate virtually with little oversight as the Taiwanese managers were believed to be experts. After the first year of operation, the U.S. management considered this venture a success because the plant was deemed profitable.

THE PROBLEM

Within two years, the U.S. leadership received multiple anonymous reports through the company hotline. Each report featured the same story – the highest-level senior managers at the plant were creating phony vendors and through AP were paying them millions of company dollars. In other reports, these same employees were reportedly taking substantial kickbacks from other vendors.

The company's internal audit team evaluated the hotline reports but found the financial records to be in order and found the reports to be without merit. The outside auditor from a Big Four firm also found nothing. The company did nothing. Two years later, and four years after the plant opened, there were more than 30 hotline reports and all were almost the same as before. The company hired KLINK to evaluate the reports.

OUR APPROACH

With a long history of investigating kick-back schemes for manufacturers, KLINK knows this type of fraud is common in emerging markets around the globe. We also know that these schemes often go undiscovered because nothing seems amiss with the financial records or plant operations.

KLINK relied on our past experience and expert knowledge to analyze the company's accounts payable records, perform site visits on vendors, and interview competitors, neighbors, former plant employees, and government officials.

We found that senior management had created more than 100 shell companies that were used to defraud our client. Some of the vendors in our client's accounts payable records did not exist or were owned by Chinese farmers. Legitimate vendors were forced to pay kickbacks to management of 5% to 50% of the contract price. The losses were staggering.



KEY TAKEAWAYS

- Vendor fraud is rampant
- Schemes cost clients 5% - 50% of the total vendor contract price
- Be vigilant, have strong internal controls, respond promptly to reports, perform adequate due diligence, and know losses may reduce profit

RESULTS

KLINK found the facts that put a stop to a \$3 billion scheme. In addition to uncovering this information, KLINK worked with the company to improve internal controls, assist with terminating the bad employees, and help the client identify suitable vendors.

KLINK is an international business intelligence firm proactively and confidentially uncovering fraud, fictions and phantoms before they become financial, legal or public crises.

www.klinkintel.com | info@intel.com | 412.201.9123 | @klinkintel



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