

**Forensic Accounting Case Study Series – sponsored by Deloitte
FAS LLP and the Deloitte Foundation Claims Management
Fraud – Reliability Tire, Inc.
Fraud Assessment Methodology for Case No. 2-4**

**GBUS 744: Introduction to Fraud Examinations
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Team: Fraud Busters
Masters in data Analytics Engineering**

Background:

A claims management scam discovered after an internal audit has shaken Reliable Tire, Inc., a prominent tire manufacturer. The scam, which is suspected to have been going on for several years, involves the modification of claims data to exaggerate insurance payouts. The scam was found after a normal examination of claims management operations, according to a company statement. The investigation discovered evidence of manipulated claims data, which had been used to claim reimbursements for costs that had never occurred. It is anticipated that the plan cost the corporation millions of dollars in bogus claims. A reputable forensic accounting firm, Deloitte FAS LLP, has been retained to investigate the fraud and assist the corporation in recovering any damages. The project is also supported by the Deloitte Foundation, a philanthropic foundation focusing on education and research. Deloitte FAS LLP stated in a statement that it is working closely with Reliable Tire, Inc. to identify the perpetrators of the fraud and put measures in place to avoid such events from occurring in the future. The inquiry is still underway, and no other information has been given at this time. The discovery of the fraud is a setback for Reliable Tire, Inc., which has long been proud of its ethical business procedures. The corporation apologized to its stakeholders and assured them that it is taking all necessary efforts to remedy the matter. Investors are concerned about the impact of the fraud on the company's financial performance and image. Reliable Tire, Inc. stock has plummeted since word of the scam leaked (LLC).

Analysis of Claim Management Fraud

1. Conducting Information Interviews with Reliability Key Personnel:
 - a. Who do we interview?
To understand the claims process of Reliability, we can interview the following key personnel:
 - i. Claims department head.
 - ii. Claims adjusters.
 - iii. Customer service representatives
 - iv. Quality control managers
 - v. Technical experts
 - b. What information would we want to learn about during our conversations?
During our conversations with the key personnel, we would want to learn about the following information related to the claims process:
 - i. What types of claims are covered by Reliability?
 - ii. What documentation is required to submit a claim?
 - iii. How long does it typically take to process a claim?
 - iv. What is the process for investigating and evaluating claims?
 - v. How are claims paid out to customers?
 - vi. What measures are in place to prevent fraudulent claims?
 - vii. How does Reliability ensure customer satisfaction with the claims process?

2. Reliability Sends a Formal Notice on the Claim Process to its Retailers and the Customers Who Purchased Tires?

a. What does this notice say?

The formal notice from Reliability would likely provide information about the claims process and how customers can submit claims. It would also include instructions on what documentation is required for claim submission and where to send the claim. Additionally, the notice may inform customers and retailers of any changes or updates to the claims process.

b. Do we provide deadlines for claim submissions? If so, why?

Yes, Reliability may provide deadlines for claim submissions. This is to ensure that claims are submitted in a timely manner and can be processed promptly. Deadlines also help to prevent fraudulent claims from being submitted after a long period of time has passed.

3. Retailers extract sales information related to Reliability tires and provide data to Reliability in a standardized format?

a. What are the fraud risks associated with this process?

Fraud risks associated with this process could include retailers submitting false or inflated sales data to receive higher reimbursement amounts or submitting duplicate claims for the same tire sale. To mitigate these risks, Reliability should have controls in place to ensure that the data provided is accurate and valid. This could include reviewing the data for inconsistencies, verifying the accuracy of data with the retailer, and performing audits of the sales data.

b. Who from the retailer would you want approving these documents?

Ideally, someone from the retailer's finance or accounting department who has access to the sales data and is responsible for ensuring its accuracy should be approving these documents.

4. Reliability receives sales information from retailers and sends to Lafayette.

a. What type of checks would Lafayette put in place to confirm the accuracy of these documents?

Lafayette would likely conduct several checks to confirm the accuracy of the documents, such as comparing the sales data received from the retailer to internal sales data and reviewing the supporting documentation provided by the retailer. They may also perform statistical analyses to identify any anomalies or outliers in the data.

b. What key data points would be helpful for the retailers to provide?

To ensure accuracy of the sales information, retailers should provide the following key data points:

- i. Date of sale
- ii. Tire model and size
- iii. Quantity sold.
- iv. Sales price.
- v. Customer information (name, address, phone number)

5. Lafayette processes submitted claims using agreed upon procedures and documents (e.g., Price List):

a. What type of analysis would Lafayette perform during their review of submitted claims to help confirm that there is no fraud?

To help confirm that there is no fraud, Lafayette would perform several analyses on the submitted claims, including:

- i. Verifying that the claim meets all eligibility requirements.
- ii. Checking that the claim amount is consistent with the agreed-upon procedures and documents, such as the price list.
- iii. Reviewing supporting documentation to ensure that it is legitimate and accurate.
- iv. Analyzing patterns or trends in claims to identify any potentially fraudulent activity.

b. What key information might we want to include on our work papers from an internal company (Lafayette) risk perspective?

From an internal company (Lafayette) risk perspective, key information that should be included on work papers includes:

- i. Details of the procedures performed, and the conclusions reached.
- ii. Any potential fraud risks identified and how they were addressed.
- iii. Any areas where improvements could be made to the claims process to reduce fraud risk in the future.
- iv. Any issues or concerns raised during the review process and how they were resolved.

6. Lafayette sends final output for approval from Reliability and Reliability makes payment based on Lafayette's recommendation:

c. From whom at Reliability might we seek approval?

To seek approval for the final output, we might approach the following individuals at Reliability:

- i. Claims department head.
- ii. Financial controller
- iii. CEO or other executive management

d. Is verbal approval sufficient?

Verbal approval may not be sufficient, especially if the amount of the claim is significant. It is advisable to obtain written approval to ensure clarity and accountability.

7. Retailers perform work to end customers to make them whole.

- a. Once work is complete, what information would Reliability want to obtain from the customer to prevent future liability?

To prevent future liability, Reliability would want to obtain the following information from the customer:

- i. Confirmation that the work has been completed and the tire is functioning properly.
- ii. A release of liability or waiver stating that the customer will not hold Reliability responsible for any future issues with the tire.
- iii. Any additional information or feedback that the customer may have about their experience with the claims process.

References

LLC, D. D. (n.d.). Retrieved from <https://learn-us-east-1-prod-fleet01-xythos.content.blackboardcdn.com/blackboard.learn.xythos.prod/5a30bcf95ea52/22421774?X-Blackboard-S3-Bucket=blackboard.learn.xythos.prod&X-Blackboard-Expiration=1678309200000&X-Blackboard-Signature=%2FSvBppc2Xu95npl7f%>