

Comprehensive Fraud Audit Report

Report Title: Meridian Opportunities Fund: Complete Forensic Analysis

Report Number: IOF-2023-001

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Department: Internal Audit

Issue Category: Investment Fraud

Confidentiality Level: Internal Only

Risk Assessment Score: 43

Financial Impact USD: 750,947,515

Executive Summary:

This comprehensive fraud audit report details the in-depth findings of the Meridian Opportunities Fund (MOF) investment fraud scheme at Veridian Bank. Our analysis reveals a complex web of deceit, involving fabricated assets, inflated valuations, and unauthorized trading. The scheme, orchestrated by Marcus Thorne and Arthur Sterling, resulted in a staggering financial loss of \$750,947,515. This report provides a definitive account of the fraud, highlighting key findings, forensic accounting evidence, and recommendations for remediation and recovery efforts.

Introduction:

The MOF investment scheme was designed to attract institutional investors, primarily pension funds and endowments. The fund's portfolio was composed of illiquid assets, which were allegedly valued using mark-to-model methodologies. However, our investigation revealed that these valuations were fabricated, and the assets did not exist. Thorne and Sterling exploited this opacity to engage in unauthorized trading, generating fictitious returns and concealing the true extent of the losses.

Comparison with Similar Cases:

The MOF investment scheme bears striking similarities to the Bernard Madoff Ponzi scheme, which resulted in losses exceeding \$65 billion. Like Madoff, Thorne and Sterling created a complex web of deceit, using fabricated assets and inflated valuations to conceal their scheme. However, unlike Madoff, who used a more traditional Ponzi structure, Thorne and Sterling employed a combination of mark-to-model valuations and unauthorized trading to generate fictitious returns.

Another notable comparison is with the LIBOR scandal, which involved manipulation of interbank lending rates. In both cases, the perpetrators exploited regulatory weaknesses and lack of oversight to

perpetuate their schemes. However, the MOF investment scheme differs in its scope and complexity, involving multiple parties and a more intricate structure.

Forensic Accounting Findings:

Our forensic accounting analysis revealed the following key findings:

1. **Fabricated Assets:** Thorne and Sterling created fictitious assets, including real estate holdings and illiquid securities, to inflate the MOF's portfolio value.
2. **Inflated Valuations:** The mark-to-model valuations used to value the MOF's assets were systematically inflated, resulting in overstated returns and concealment of losses.
3. **Unauthorized Trading:** Thorne and Sterling engaged in unauthorized trading, using client funds to purchase and sell securities without proper authorization.
4. **Fictitious Returns:** The MOF's returns were generated through a combination of mark-to-model valuations and unauthorized trading, resulting in fictitious returns and concealment of losses.

Legal Implications:

The MOF investment scheme has significant legal implications, including:

1. **Securities Fraud:** Thorne and Sterling's actions constitute securities fraud, as they misrepresented the MOF's investments and returns to clients.
2. **Ponzi Scheme:** The MOF investment scheme bears the hallmarks of a Ponzi scheme, as Thorne and Sterling used client funds to pay returns to earlier investors.
3. **Regulatory Non-Compliance:** Veridian Bank's failure to properly supervise and monitor the MOF investment scheme resulted in regulatory non-compliance, including violations of the Dodd-Frank Act and SEC regulations.

Recommendations:

To prevent similar schemes in the future, we recommend the following:

1. **Enhanced Supervision:** Veridian Bank should implement enhanced supervision and monitoring procedures to detect and prevent similar schemes.
2. **Improved Risk Management:** The bank should improve its risk management practices, including the use of more robust risk models and independent valuation procedures.
3. **Regulatory Compliance:** Veridian Bank should ensure compliance with relevant regulations, including the Dodd-Frank Act and SEC regulations.

4. **Client Education:** The bank should provide clients with clear and transparent information about their investments, including the risks and potential returns.

Conclusion:

The MOF investment scheme was a complex and devastating fraud that resulted in significant financial losses for Veridian Bank and its clients. This comprehensive fraud audit report provides a definitive account of the scheme, highlighting key findings, forensic accounting evidence, and recommendations for remediation and recovery efforts. By learning from this case, Veridian Bank can implement reforms to prevent similar schemes in the future and restore trust with its clients and stakeholders.

Recommendations for Remediation and Recovery Efforts:

1. **Restatement of Financial Statements:** Veridian Bank should restate its financial statements to reflect the true extent of the losses resulting from the MOF investment scheme.
2. **Client Compensation:** The bank should provide clients with fair and reasonable compensation for their losses.
3. **Regulatory Cooperation:** Veridian Bank should cooperate fully with regulatory authorities, including the SEC and FBC, to ensure compliance with relevant regulations.
4. **Internal Controls:** The bank should implement robust internal controls to prevent similar schemes in the future.

Recommendations for Future Investigations:

1. **Review of Internal Controls:** The bank should conduct a thorough review of its internal controls, including risk management practices and supervision procedures.
2. **Investigation of External Parties:** The bank should investigate external parties, including auditors and consultants, to determine their role in the MOF investment scheme.
3. **Analysis of Regulatory Failures:** The bank should analyze regulatory failures, including the failure to detect and prevent the MOF investment scheme, to identify areas for improvement.
4. **Review of Client Communication:** The bank should review its communication with clients, including the disclosure of risks and potential returns, to ensure transparency and compliance with regulatory requirements.

Recommendations for Future Reforms:

1. **Enhanced Risk Management:** Veridian Bank should implement more robust risk management practices, including the use of more advanced risk models and independent valuation procedures.

2. **Improved Supervision:** The bank should improve its supervision and monitoring procedures to detect and prevent similar schemes.
3. **Regulatory Compliance:** Veridian Bank should ensure compliance with relevant regulations, including the Dodd-Frank Act and SEC regulations.
4. **Client Education:** The bank should provide clients with clear and transparent information about their investments, including the risks and potential returns.

Conclusion:

The MOF investment scheme was a devastating fraud that resulted in significant financial losses for Veridian Bank and its clients. This comprehensive fraud audit report provides a definitive account of the scheme, highlighting key findings, forensic accounting evidence, and recommendations for remediation and recovery efforts. By learning from this case, Veridian Bank can implement reforms to prevent similar schemes in the future and restore trust with its clients and stakeholders.

Document Appendices:

Appendix A: Forensic Accounting Analysis

Appendix B: Legal Analysis

Appendix C: Regulatory Compliance Review

Appendix D: Client Communication Review

Appendix E: Recommendations for Future Investigations

Appendix F: Recommendations for Future Reforms