

Preliminary Investigation Brief

Case #2023-IVB-001

Internal Audit Team, Veridian Bank

Department: Legal

Issue Category: Investment Fraud

Confidentiality Level: Confidential

Risk Assessment Score: 63

Financial Impact USD: 294,254,541

Executive Summary

The Internal Audit Team, in collaboration with the Legal Department, has initiated a preliminary investigation into the investment fraud scheme at Veridian Bank. Our initial findings suggest a sophisticated and coordinated effort to deceive investors and conceal the true nature of the Meridian Opportunities Fund. This brief provides an overview of the situation, highlighting key concerns, initial evidence, and immediate risks.

Background

In March 2021, Risk Management, led by Evelyn Reed, flagged irregularities in the Meridian Fund's valuation methodology. Despite these warnings, the Executive Office, led by Arthur Sterling, and the Investment Department, led by Marcus Thorne, chose to ignore these concerns. As the crisis deepened, the Board of Directors remained largely uninformed, and the institution's culture of complacency and fear of whistleblowers allowed the scheme to escalate.

Initial Findings

Our investigation has uncovered a web of deceit and mismanagement, which has resulted in significant financial losses for Veridian Bank and its clients. Key findings include:

- **Phantom Assets:** The Meridian Fund held \$294,254,541 in fictitious real estate holdings, inflated valuations of the Cascade Technology Portfolio, and fictitious returns on Shadow Creek vehicles.
- **Synthetic Collateralization:** The Investment Department created complex security structures to conceal the true nature of the fund's assets.
- **Layering Schemes:** Thorne and his team used intricate transaction chains to obscure the flow of funds and deceive investors.

Evidence

Our investigation has identified several key pieces of evidence, including:

- **Emails:** Internal communications between Thorne, Sterling, and other executives reveal a deliberate effort to conceal the truth and deflect blame.
- **Meeting Minutes:** Records of Board meetings and Executive Committee sessions demonstrate a lack of transparency and a culture of fear.
- **Financial Reports:** Quarterly reports and other financial documents reveal a pattern of suspicious transactions and accounting irregularities.

Immediate Concerns

The investment fraud scheme at Veridian Bank poses significant risks to the institution's reputation, financial stability, and regulatory compliance. Immediate concerns include:

- **Regulatory Scrutiny:** The Federal Banking Commission (FBC) and other regulatory bodies are likely to launch a thorough investigation, which could result in severe penalties and reputational damage.
- **Client Losses:** Investors have lost significant amounts of money due to the scheme, and it is likely that Veridian Bank will face lawsuits and settlements.
- **Employee Attrition:** The crisis has already led to the departure of key personnel, including risk experts and compliance officers, which could exacerbate the situation.

Recommendations

Based on our initial findings, we recommend that the Board of Directors and Executive Office take immediate action to address the crisis. This includes:

- **Engaging External Auditors:** Veridian Bank should engage external auditors to conduct a comprehensive review of the Meridian Fund and other investment activities.
- **Implementing Reforms:** The institution should implement reforms to strengthen risk management, compliance, and governance, including the creation of an independent risk committee.
- **Cooperating with Regulators:** Veridian Bank should cooperate fully with regulatory bodies and provide transparent and timely information to address their concerns.

Conclusion

The investment fraud scheme at Veridian Bank is a complex and multifaceted issue that requires a thorough and comprehensive investigation. Our preliminary findings suggest a culture of complacency, fear, and deceit, which has allowed the scheme to escalate. We recommend that the

Board of Directors and Executive Office take immediate action to address the crisis and implement reforms to strengthen risk management, compliance, and governance.