

## **Comprehensive Fraud Audit Report**

**Case Number:** FRA-2023-001

**Date:** March 15, 2023

**Author:** Evelyn Reed, Head of Risk Management

**Department:** Risk Management

**Issue Category:** Market Manipulation

**Confidentiality Level:** Internal Only

**Risk Assessment Score:** 57

**Financial Impact USD:** 517,766,431

### **Executive Summary:**

This comprehensive audit report details the market manipulation scheme perpetrated by Veridian Bank's Investment Division, led by Marcus Thorne. The report provides an in-depth analysis of the forensic accounting findings, legal implications, and comprehensive recommendations for remediation and recovery efforts.

### **Background:**

Veridian Bank's Investment Division managed the Meridian Opportunities Fund, which was compromised by a sophisticated market manipulation scheme. The scheme involved the creation of phantom assets, inflated valuations of illiquid assets, and fictitious returns on Shadow Creek investment vehicles.

### **Methodology:**

The audit team employed a multi-disciplinary approach to investigate the market manipulation scheme. The methodology included:

1. **Forensic Accounting:** A comprehensive review of financial statements, trading records, and other relevant documents to identify suspicious transactions and patterns.
2. **Data Analysis:** The use of advanced data analytics tools to identify trends, anomalies, and correlations in the data.
3. **Legal Analysis:** A review of relevant laws, regulations, and industry standards to determine the legal implications of the market manipulation scheme.

4. **Interviews and Surveys:** Interviews with key personnel, including Marcus Thorne, Arthur Sterling, and other relevant individuals, to gather information and context.

### **Findings:**

The audit team's findings include:

1. **Phantom Assets:** The creation of phantom assets, valued at \$250 million, which were used to inflate the Meridian Opportunities Fund's performance.
2. **Inflated Valuations:** The inflation of valuations of illiquid assets, valued at \$150 million, which were used to support the fund's performance.
3. **Fictitious Returns:** The creation of fictitious returns on Shadow Creek investment vehicles, valued at \$100 million, which were used to support the fund's performance.
4. **Market Manipulation:** The use of market manipulation techniques, including wash sales, matched orders, and other tactics, to artificially inflate the fund's performance.

### **Financial Impact:**

The financial impact of the market manipulation scheme is estimated to be \$517,766,431.

### **Legal Implications:**

The market manipulation scheme has significant legal implications, including:

1. **Securities Fraud:** The scheme constitutes securities fraud, in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5.
2. **Market Manipulation:** The scheme constitutes market manipulation, in violation of Section 9(a) of the Securities Exchange Act of 1934.
3. **Insider Trading:** The scheme may constitute insider trading, in violation of Section 16(b) of the Securities Exchange Act of 1934.

### **Recommendations:**

The audit team recommends the following remediation and recovery efforts:

1. **Restitution:** The bank should provide restitution to affected investors, in the amount of \$517,766,431.
2. **Compliance Program:** The bank should establish a comprehensive compliance program to prevent future market manipulation schemes.
3. **Disciplinary Action:** The bank should take disciplinary action against individuals involved in the market manipulation scheme, including Marcus Thorne and Arthur Sterling.

4. **Regulatory Cooperation:** The bank should cooperate fully with regulatory agencies, including the Federal Banking Commission and the Securities and Exchange Commission.

### **Conclusion:**

The market manipulation scheme perpetrated by Veridian Bank's Investment Division is a serious breach of fiduciary duty and a clear violation of regulatory requirements. The audit team's findings and recommendations provide a comprehensive analysis of the scheme and outline the necessary remediation and recovery efforts to restore investor confidence and prevent future incidents.

### **Appendix:**

The appendix includes the following supporting documents:

1. **Forensic Accounting Report:** A detailed report of the forensic accounting findings, including a comprehensive review of financial statements, trading records, and other relevant documents.
2. **Data Analysis Report:** A detailed report of the data analysis findings, including the use of advanced data analytics tools to identify trends, anomalies, and correlations in the data.
3. **Legal Analysis Report:** A detailed report of the legal analysis findings, including a review of relevant laws, regulations, and industry standards.
4. **Interviews and Surveys:** A summary of the interviews and surveys conducted with key personnel, including Marcus Thorne, Arthur Sterling, and other relevant individuals.

### **Certification:**

I, Evelyn Reed, hereby certify that the findings and recommendations contained in this report are accurate and reliable, and that the audit was conducted in accordance with generally accepted auditing standards.

**Signature:** Evelyn Reed

**Date:** March 15, 2023

**Certification Number:** FRA-2023-001

**Audit Firm:** Risk Management

**Audit Date:** March 1, 2023 - March 15, 2023

**Audit Duration:** 14 days

**Audit Hours:** 240 hours

**Audit Cost:** \$120,000

**Audit Report Status:** Final