

**Oklahoma Beef Council  
Forensic Analysis and Assessment  
Report to the Board of Directors  
October 6, 2016**

## **EXECUTIVE SUMMARY**

### **Introduction**

In July 2016, the Oklahoma Beef Council (the "Company") discovered suspicious disbursement activity taking place in its primary operating bank account. A preliminary investigation of this suspect disbursement activity was performed. This investigation led management to believe that a professional forensic analysis and assessment of the Company's accounting records should be performed. Upon hiring HSPG & Associates P.C. ("HSPG") to start the analysis and assessment, Company personnel found they were unable to locate hard copies of accounting records for most of the years being analyzed. The missing records include paid vendor invoices and bank statements. Therefore, the forensic analysis and assessment of the Company's financial transactions was performed using reports from the Company's Peachtree accounting software and copies of bank statements and cancelled checks provided from the archives of the Company's bank.

### **Action Taken**

HSPG was engaged by the Company on August 10, 2016 to perform a multiple phased assignment. The Company had learned that its books and records were in need of a forensic analysis and assessment to be performed retrospectively and new accounting procedures to be developed and implemented to allow the Company's business activities to be recorded accurately in the future. Furthermore, the Company wished to have its business processes evaluated and strengthened. HSPG has addressed the Company's needs by performing consulting procedures in the following phases.

*Phase One – Discovery* HSPG personnel performed an assessment in the first phase of the engagement by meeting with Company personnel and performing interviews to gain a full understanding of the Company's business activities. HSPG personnel also inspected all available information and documentation representing the transactions of the Company since October, 2012. The completeness of this information and documentation was assessed.

*Phase Two – Planning and Implementation* Based on the results and findings of the discovery procedures, a detailed approach plan was developed in the form of instructions and checklists to guide HSPG personnel through a complete forensic analysis and assessment of the Company's financial transactions. Procedures for development and implementation of new accounting and financial reporting functionality were also included in the approach plan.

### **Forensic Analysis and Assessment**

- Using bank statements obtained from the Bank of Oklahoma archives, Heather Buckmaster (Executive Director) performed a detailed analysis to determine if funds had been misappropriated prior to October 2012. She requested bank statements retroactively as far in the past as the Bank of Oklahoma archived records would allow. The earliest possible date available was August 2009. Analyzing chronologically backward through that date, Heather found misappropriated funds every year in the form of unauthorized cash disbursements (forged checks) payable to the former Accounting and Compliance Manager. Therefore, no beginning date of the fraudulent activity was determined. The amount of the misappropriated funds determined to have been disbursed during this period has been included in the findings discussed later in this report.
- For the period of October 2012 to July 2016, HSPG personnel printed a detailed General Ledger Report for each month showing all transactions recorded in each account. They also obtained the Bank of Oklahoma bank statements for each month and copies of all cancelled checks which cleared the bank each month. HSPG personnel examined every transaction in each bank statement. Each transaction on each bank statement was compared to its corresponding check copy and general ledger entry. The amount of the misappropriated funds determined to have been disbursed during this period has been included in the findings discussed later in this report.
- For each transaction noted as unique, unusual or out of the ordinary, attempts were made to pull supporting documentation for the transaction to analyze its nature and substance for validity, reasonableness and accuracy with regard to the way it had been recorded. During these attempts, it was determined that the paid invoice files and other accounting records for fiscal years 2013 and 2014 were missing from storage. They could not be located. Therefore, HSPG and Company personnel were not able to examine the documents for those years. Fiscal year 2015 and 2016 accounting files were found; however, all documentation related to questionable general ledger transactions was missing from those files. Therefore, some checks which appeared to be legitimate business expenses with forged check signatures could not be verified because the supporting documents were not in the accounting files.
- Heather Buckmaster obtained all of the Company's credit card statements back to October 2014. She reviewed the detailed activity on each statement and found no inappropriate expenditures.

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- Heather Buckmaster obtained all of the Company's payroll reports from the third party payroll processor (Paychex) back to July 2014. She reviewed the detailed activity on each report and found no inappropriate expenditures. Furthermore, HSPG personnel examined the monthly payroll journal entries and monthly payroll tax entries in the general ledger and found no inappropriate activity.
- HSPG personnel assisted Company personnel in performing procedures to reconcile the BCCS system to the deposits in the bank statements in support of the assertion that no funds due to CBB have been misappropriated. Based on the results of these procedures, the Company is confident that the States of Origin were paid correctly and CBB was slightly overpaid.

**Findings and Observations**

**Magnitude**

The following table provides perspective on the nature and scope of the fraudulent conveyance of funds experienced by the Company during the period of this analysis and assessment. The Company's fiscal year ends on September 30<sup>th</sup>. The following table identifies the number of fraudulent checks disbursed and the amount of misappropriated funds discovered in each of the fiscal years listed.

(\* Subject to availability of bank documents beginning in August 2009)

<b>Fiscal Year</b>	<b>Number of Checks Written</b>	<b>Amount of Funds</b>
2009 *	12 *	\$ 30,632 *
2010	119	305,941
2011	95	308,402
2012	97	328,132
2013	92	270,668
2014	100	316,231
2015	127	509,254
2016	<u>131</u>	<u>557,789</u>
	773	\$ 2,627,049

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**Findings** - The following items specify key findings that surfaced during the forensic analysis and assessment of the Company's financial records:

- The funds were misappropriated via forged Company checks made payable to the Accounting and Compliance Manager. Predominately, the fraudulent checks were recorded in the Peachtree accounting system as cash disbursements transactions, as opposed to accounts payable payments. The difference being that the Payee's name can be edited on a cash disbursements transaction. After writing and cashing a fraudulent check, the Payee name on the disbursement would be changed to a legitimate vendor name in the Peachtree system. All of the Peachtree reports would show the legitimate vendor name associated with that check. Bank statements were meticulously altered to reflect the valid vendor names on the check images.
- The Executive Director's signature was forged onto each fraudulent check. In the earlier years, a stamp of the Executive Director's signature was utilized. When the stamp was discarded by the Company, the Executive Director's forged signature was manually written on the signature line of each fraudulent check.
- During fiscal year 2015, numerous fraudulent checks totaling \$144,000 were written to the Accounting and Compliance Manager and not recorded in the general ledger. These checks built as an unidentified difference in the monthly bank statement reconciliations until August 2015 when a fictitious check to NCBA for \$144,000 was recorded in the general ledger and used to clear the unidentified difference in the bank reconciliation.
- In fiscal 2016, the monthly reconciliation of the bank statement to the operating cash account on the general ledger was not being performed.
- Company personnel have been unable to locate hard copies of accounting records for most of the years being analyzed. The missing records include paid vendor invoices and bank statements. The bank statements and check copies used to perform the analysis and assessment were provided by the bank from their archives.
- Assessment revenue was not being reconciled properly each month. "Special sales" were being entered in the BCCS system to balance to the deposits per the bank statement. This type of forced balancing resulted in incorrect accounting for check off dollars received by the Company. Assessment reconciliations have been performed for several months of FY 2016 to ensure that CBB and the States of Origin were not underpaid. Based on the results of these procedures, the Company is confident that the States of Origin were paid correctly and CBB was slightly overpaid.

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The following items specify key observations that surfaced during the forensic analysis and assessment of the Company's financial records. These observations are based upon hypothetical conjecture and reason. As such, these assertions should not be considered as fact nor should they be relied upon for any purpose.

- The Accounting and Compliance Manager had twenty years of experience working for the Company. Those years of experience provided extraordinary knowledge of the Company's operations and financial reporting procedures. This level of experience allowed for a complete understanding of the most vulnerable business practices, general ledger accounts and financial reports to be used for misstatement and misinformation.
- The Accounting and Compliance Manager's position consists primarily of recurring routine tasks and job duties. The stagnant nature of these tasks and responsibilities allowed for the creation of reliable safeguards against the discovery of misstatement and misinformation.
- The Accounting and Compliance Manager was solely and completely responsible for all coordination and execution of the Company's financial statement audit each year. The experience resulting from this recurring responsibility allowed for an understanding of audit focus, timing and procedures. Utilizing this knowledge, the Accounting and Compliance Manager chose to discontinue writing fraudulent checks in certain months of each year. It also allowed for the creation of explanations to be provided in answer to any auditors' questions about irregularities or anomalies.
- The Company had material weaknesses in its internal control structure. Principally contributing to the ability to defraud the Company was the lack of segregation of duties. The Accounting and Compliance Manager personally performed and controlled all of the tasks and functions necessary to create undetected fraudulent cash disbursements.
- The Accounting and Compliance Manager was also solely responsible for maintaining the Company's general ledger and performing the Company's bank reconciliations. There was no further specific control procedure performed on the general ledger or bank reconciliations beyond the Accounting and Compliance Manager's review and approval.
- The Company also had material weaknesses in its financial reporting practices. Financial reports were predominantly prepared on spreadsheets displaying information at a summary level. This practice made the financial reports susceptible to manipulation and misstatement. The Accounting and Compliance Manager possessed full responsibility for preparation, proofing and final review of all financial reports prior to distribution.

**Status of Accounting Function**

HSPG has worked closely with Company personnel to establish a new accounting system utilizing QuickBooks software. The following is a detailed list of actions taken in this regard:

- We have reviewed prior period audit reports, prior period board reports, and interviewed Company personnel to gain a complete understanding of the mission of the Company and the desired deliverables from a financial reporting system.
- We have researched and studied policies, procedures and compliance materials related to the operations of the Company.
- We have assessed the financial reporting needs of the Company compared to Generally Accepted Accounting Principles reporting requirements in order to develop a financial reporting system that satisfies the requirements of both.
- We have assisted Company personnel in research of accounting software packages suitable to the operational and reporting requirements of the Company. Quickbooks Accounting Software has been purchased and loaded on the Company's computer system.
- The Quickbooks company set-up procedures have been performed and system settings have been established.
- The chart of accounts has been analyzed and improved with a class tracking system that will provide the detail by category necessary for transparency, understanding and review of financial reports.
- Auditable beginning balances as of October 1, 2015 have been substantiated and entered into the new software.
- October 2015 through August 2016 operating cash account transactions have been entered into the new general ledger.
- Monthly bank reconciliations have been performed for October 2015 through August 2016.
- September 2016 transactions are being entered and closing journal entries for the fiscal year end are being developed.

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- We reconciled retirement contributions and calculated necessary make up contributions for FY 2013 – FY 2016. Additional retirement contributions have been processed for the shortages which were identified.
- We have assisted Company personnel in the setup of Positive Pay with the bank.
- We have created a list of compliance duties.
- We have created a list of accounting duties.
- We have created checklists of tasks to be completed each period to ensure accurate and timely financial reporting.
- We have created account reconciliation schedules for all applicable balance sheet accounts to assist in the accuracy of financial reporting and to assist in the execution of future audits.
- We assisted Company personnel in reconciling assessments received during 2016 to data entered and remittances paid from the BCCS system to ensure proper payment and recording of amounts owed to CBB and States of Origin.
- We have implemented an invoice approval and payment processing system that enlists segregation of duties.

Oklahoma Beef Council  
 Forensic Analysis of Cash Activity  
 October 2012 - July 2016

Summary of Findings: Checks paid inappropriately to employee, falsely reported in the general ledger.

	FY 2013	FY 2014	FY 2015	FY 2016
<b>Total Amount</b>	<b>\$ 270,668.13</b>	<b>\$ 316,231.00</b>	<b>\$ 509,253.75</b>	<b>\$ 557,789.00</b>
<b>Number of Checks</b>	<b>92</b>	<b>100</b>	<b>127</b>	<b>131</b>

Missstated General Ledger Account Coding:

3700 - State of Origin	217,239.60	229,053.50	196,253.75	56,739.50
3810 - Federation Investments	-	-	79,000.00	-
3811 - Federation	3,625.25	-	-	-
3830 - USMEF Investment	-	-	65,000.00	-
3831 - USAMEF Travel	3,652.07	-	-	-
4160 - Print Campaign	11,299.49	-	11,690.25	3,652.50
4221 - Promo Event	2,852.96	-	-	-
4265 - Retail Food Service	-	-	22,681.50	-
6160 - Meetings	22,021.26	27,039.75	52,807.25	15,284.25
6210 - Nutrition Trade Show	-	10,883.25	12,358.25	-
6215 - Participate Trade Show	-	-	8,405.00	-
6302 - Beef Recipes	-	10,583.50	18,165.25	-
7113 - Beef Ind. Travel	3,852.00	3,962.25	4,582.50	-
7120 - BQA Activities	-	-	12,133.00	3,952.25
7125 - OBOS	-	3,825.25	3,796.50	-
8194 - Producer	3,741.00	10,246.25	-	-
8196 - Producer Ev	2,384.50	-	-	8,826.75
8198 - Check Off Radio	-	16,992.00	13,823.00	12,308.50
9209 - Office Supplies	-	-	-	3,841.75
9288 - Postage	-	3,645.25	-	-
9301 - Compliance	-	-	4,652.25	-
9303 - Buyers Cards	-	-	3,905.25	444,162.50
Not recorded in General Ledger	-	-	-	9,021.00
<b>Total Amount</b>	<b>\$ 270,668.13</b>	<b>\$ 316,231.00</b>	<b>\$ 509,253.75</b>	<b>\$ 557,789.00</b>