



Strathmore
UNIVERSITY

STRATHMORE UNIVERSITY BUSINESS SCHOOL

BACHELOR OF FINANCIAL SERVICES

END OF SEMESTER EXAMINATIONS

BFS 3202: FINANCIAL SERVICES FRAUD AND INVESTIGATIONS

Date: 19th December 2023

Time: 13:00-15:00

INSTRUCTIONS:

- 1) This paper consists of **FIVE** questions
- 2) Answer Question **ONE** (COMPULSORY) using a case study on **Wells Fargo Fraud** and any other **TWO** questions.

QUESTION ONE

(30 marks)

WELLS FARGO FRAUD

American financial institution Wells Fargo was beating the odds in a bad economy. During the financial crisis in 2008, the bank acquired Wachovia to become the third-largest bank by assets in the United States. A few years later, its growing revenue and soaring stock brought the company's value to nearly \$300 billion. But behind this success was a company culture that drove employees to open fraudulent accounts in attempt to reach lofty sales goals. Between 2011 and 2015, company employees opened more than 1.5 million bank accounts and applied for over 565,000 credit cards in customers' names that may not have been authorized.

Many former employees reported that company sales goals were impossible to meet, and incentives for compensation and ongoing employment encouraged gaming the system. Wells Fargo pressured employees to cross-sell, offering customers with one type of product, such as checking or savings accounts, to also buy other types of products, such as credit cards and loans. One former employee described it as a "grind-house," with co-workers "cracking under pressure." Another former employee reported, "If you don't meet your solutions you're not a

team player. If you're bringing down the team then you will be fired, and it will be on your permanent record."

In mid-2014, Well Fargo attempted to curb fraudulent activity with an ethics workshop that warned employees not to create fake accounts in customers' names. Wells Fargo also modified its compensation structure to place less emphasis on sales goals. But in the following years these efforts were not enough. The company continued to fire employees over fraudulent accounts. Wells Fargo spokesperson Mary Eshet stated, "The steps we have been taking have been effective...[and] we are continuing to do more." Their own analysis showed a decline in fake accounts by 2015, but many were still being created.

One former employee described his brief time at Wells Fargo as "the lowest point of my life." He encouraged an elderly woman to sign up for a credit card she did not want by telling her "it was confirmation that she stopped by to update her address." This made him sick to his stomach. He reported, "But it was a tough economy, and I was worried, if I lost this job, I would be in a tough financial situation." Deceptive practices such as this were widespread across the company, and many former employees reported that their managers knew about them. Jonathan Delshad, a lawyer working on behalf of former employees, said, "The better they did at sales, the more they advanced, so it got spread across the company. An entire generation of managers thrived in the culture, got rewarded for it, and are now in positions of power." One former employee said she could not meet sales goals in any ethical way and called the Wells Fargo's ethics hotline. She was eventually fired.

In 2016, Well Fargo was fined a combined total \$185 million for fraudulent activity, and CEO John Stumpf resigned. Between 2011 and 2016, approximately 5,300 employees were fired for fraudulent sales practices. Sales quotas were eliminated effective January 1, 2017.

Source: <https://ethicsunwrapped.utexas.edu/video/wells-fargo-fraud>

- a. Describe **FOUR** key legal elements of fraud as depicted in the case of Wells Fargo. **(8 marks)**
- b. What measures could Wells Fargo have taken to mitigate fraud risks? **(8 marks)**
- c. You are a Certified Fraud Examiner who has been hired to provide an expert opinion on a suspected fraud of a former employee of Wells Fargo. After conducting your investigation, you are required to write a comprehensive expert report. Discuss any **SEVEN** key elements that should be included in your report. **(14 marks)**

QUESTION TWO**(20 marks)**

XYZ Corporation is a medium-sized company that operates in the financial services industry. The company has recently experienced a significant increase in fraudulent activities, which has resulted in financial losses. The management team has decided to implement a fraud risk management framework to mitigate the risk of fraud.

Required:

- a) What is fraud risk management framework? **(1 mark)**
 - b) Why would XYZ corporation be concerned about risk management framework? **(1 mark)**
 - c) Discuss **FIVE** key components of a fraud risk management framework. **(10 marks)**
- ii. A fraud examination report is a document that outlines the findings of an investigation into suspected fraudulent activity. Discuss **FOUR** characteristics of a good fraud examination report. **(8 marks).**

QUESTION THREE**(20 marks)**

- a. What is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, and how does it help organizations combat fraud through internal control? **(10 marks)**
- b. Forensic accountants use a variety of sources of information to investigate financial crimes.

Required:

Discuss **FIVE** such sources. **(10 marks)**

QUESTION FOUR**(20 marks)**

- a) Discuss any **FIVE** different types of computer forensics techniques. **(10 marks)**
- b) When using expert witnesses in legal proceedings, what are the **FIVE** ethical issues that can arise? **(10 marks)**

QUESTION FIVE (20 marks)

One fundamental framework of fraud risk management that Alibaba uses under big data is called multi-layer risk prevention framework made up of five layers: Account Check, Device Check, Activity Check, Risk Strategy, and Manual Review. Describe detailed activities in each of the **FIVE** layers. **(20 marks)**