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The Greater Providence Deposit & Trust Embezzlement Case

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An indicative case solution

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Case actors/actions

Nino Moscardi, president of Greater Providence Deposit & Trust (GPD&T)
- Ordered investigation of the fraud.

Anonymous whistleblower
- Wrote to the president of GDP&T of the fraud

Internal Auditors, Regulators
- Failed to detect control failure and fraud

Mr. James Guisti, manager of a North Providence branch office
- The Fraudster

Two subordinates of Mr. james Guisti-

a) Customer service representative Lucy Fraioli
- Cosigned the checks.

b) Head teller Marcia Perfetto
- Paid in cash to Mr. Giusti

Case summary

Nino Moscardi, president of Greater Providence Deposit & Trust (GPD&T), received an anonymous note in his mail stating that a bank employee was making bogus loans.

Moscardi asked the bank's internal auditors to investigate the transactions detailed in the note.

The investigation led to James Guisti, manager of a North Providence branch office and a trusted 14-year employee who had once worked as one of the bank's internal auditors.

Guisti was charged with embezzling $1.83 million from the bank using 67 phony loans taken out over a three-year period using the instrument of 90-day notes requiring no collateral. The bank lost $624K and was fined $50K for allowing cash transaction above $10K.

Anatomy of the fraud

Commit: Authorization. Then later bypassing approval (due to computer service arrangement changeover resulting in control process failure - bank's loan review clerks were rotated frequently)

Conceal: Five people (his wife, his father, two friends and a nonexistent person. Repaid loans on maturity and retook another loan. Loan amounts were small to avoid detection from auditors (successful due to Mr. Giusti's knowledge of internal audit)

Convert: A subordinate, customer service representative Lucy Fraioli, cosigned the checks. Another subordinate, head teller Marcia Perfetto, cashed the checks, and give Mr. Giusti the money. (successful due to problems with segregation of control)

Opportunity

Realization
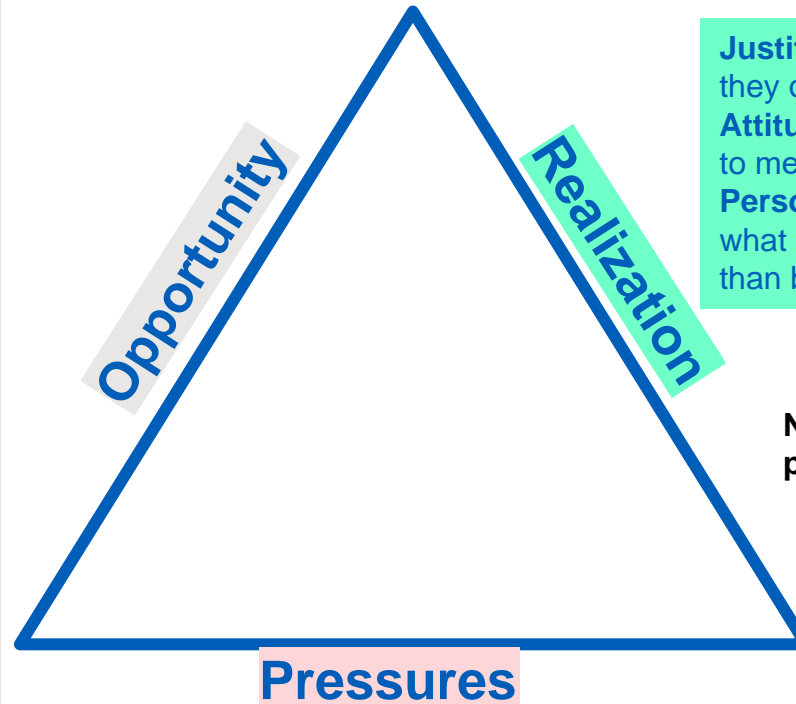
Justification – "I only took what they owed me"
Attitude – "The rules don't apply to me"
Personal integrity – "Getting what I want is more important than being honest"

Not much information provided in the case

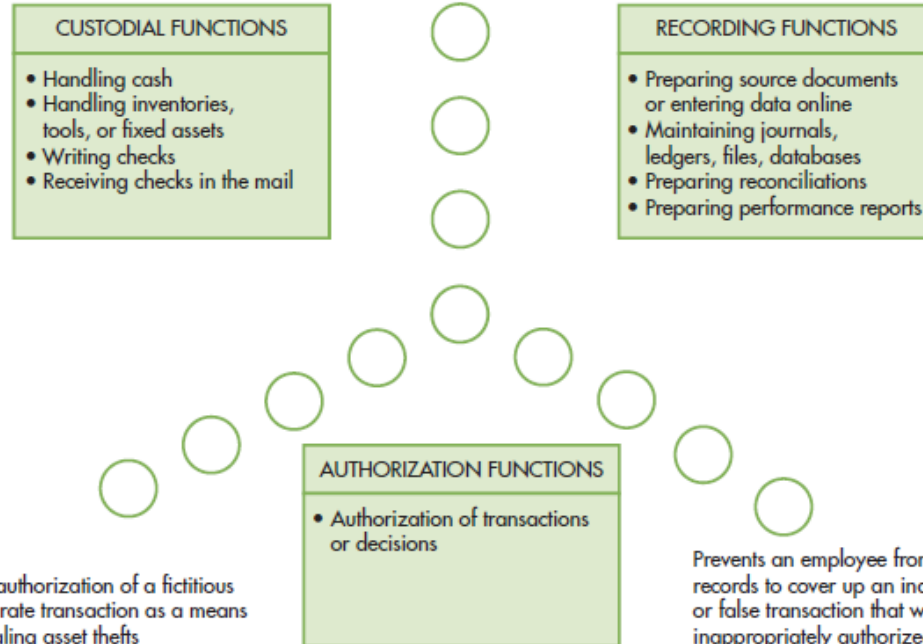**Pressures**

Lifestyle
Gambling

Problems with the segregation of control

James Guisti was responsible for the authorization and custodial functions (through cosigning)

The way documents were missing, it seems that the person handling recording was not proficient

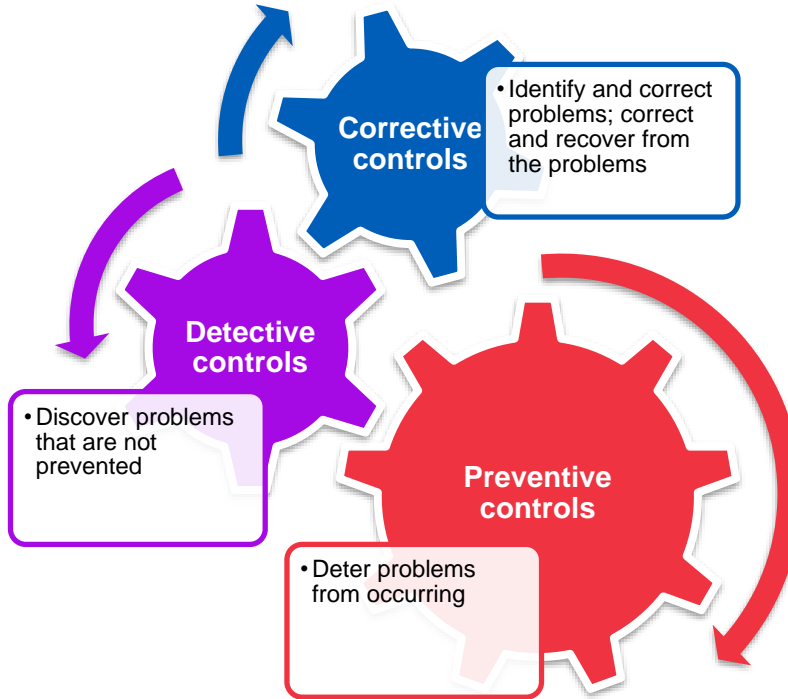**Even auditors failed to detect these internal control problems**

Prevents employees from falsifying records in order to conceal theft of assets entrusted to them

CUSTODIAL FUNCTIONS
- Handling cash
- Handling inventories, tools, or fixed assets
- Writing checks
- Receiving checks in the mail

RECORDING FUNCTIONS
- Preparing source documents or entering data online
- Maintaining journals, ledgers, files, databases
- Preparing reconciliations
- Preparing performance reports

AUTHORIZATION FUNCTIONS
- Authorization of transactions or decisions

Prevents authorization of a fictitious or inaccurate transaction as a means of concealing asset thefts

Prevents an employee from falsifying records to cover up an inaccurate or false transaction that was inappropriately authorized

State of preventive, detective, and corrective controls

Anonymous tip to bank president, Nino Moscardi suggests support for whistleblowing

Before the tip, the audit did not work well (sampling issues, bank did not think of small amounts in large numbers could tantamount to large amount

Corrective controls
- Identify and correct problems; correct and recover from the problems

Detective controls
- Discover problems that are not prevented

Preventive controls
- Deter problems from occurring

After the tip, internal audit uncovered the fraud. Charged Mr. Giusti with the embezzlement of $1.83 million and identified that the bank lost $624,000 in 67 fraudulent transactions with the instrument of 90-day notes requiring no collateral

Authorization limit of $10K, later increased to $15K and $25K. Greater amount of loan than the authorization limit **required approval from the loan committee. Some loans lacked proper documentation (credit history).**
However did not work as Mr. Giusti authorized loans bigger than his approval limit without proper documents**.**

Culture of internal control failure (inflated its assets and overestimated its capital surplus according to the state attorney general)