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Computer Leasing Fraud at CIT Group, Inc

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The case chronicles the search by a newly promoted manager to uncover an inventory fraud that had been perpetrated by her supervisor at a publicly held company. The case gives the reader the rare opportunity to see fraud occurring in large-scale organization that has many internal controls but allows them to be circumvented. Along the way, students are exposed to the importance of internal controls, red flags, the fraud triangle and forensic accounting techniques. Further, the case gives the reader the opportunity to imagine what it must be like when a subordinate no longer trusts information communicated by a superior. This case is intended to be used at the undergraduate or graduate level in an Accounting Information Systems class to present the importance of good internal controls, in an Internal Auditing or Auditing class to illustrate the auditor's role in detecting fraud or in a Fraud/Forensic Accounting class to facilitate discussion of how forensic investigations take place.

It was a warm, bustling August morning outside of the CIT office building in Jacksonville, Florida. Inside, however, it felt like the stillness after a storm. Haley Werle sat at her desk, reflecting on the whirlwind of events that occurred at CIT in the past six weeks. How many hundreds of thousands of dollars worth of computers had been stolen? She looked out her door at the empty office of her former supervisor, Kaveh Niakan. Everybody liked him. A few months ago, it would have been impossible to believe that this man would be fired for selling CIT's computers to non-approved CIT vendors and pocketing the proceeds. However, looking back, Werle realized that the red flags were there all along. She was glad that she uncovered the fraud, but a gnawing thought kept making her uneasy. Did she wait too long to report her discoveries? She thought about the month she spent gathering more information before she felt confident notifying upper management of her suspicions. How many assets were lost during this delay? More importantly, she wondered how this could

have gone unnoticed for so long in a large, sophisticated company like CIT. How could the numerous red flags have been ignored for so long by so many different people?

CIT Group, Inc. was a Fortune 500 global commercial finance company that provided financing and leasing products to a variety of industries worldwide. In 2004, it had a net income of \$754 million and its Equipment Leasing division made up 16% of the company's total assets. This division specialized in leasing computers, copiers, and fax machines to companies, schools, and universities. At the end of the lease, customers could either buy the equipment or return it to CIT. Werle was hired by CIT in March 2000 as a Vendor Account Specialist, after obtaining a BA in Business Administration from Flagler College. Within two years, she was promoted to Senior Vendor Account Specialist. Her job was to manage the company's vendor relationships. She also interacted with the Credit Department, reviewing reports from Equifax and recommending appropriate action. In April 2004, Werle successfully interviewed for the Remarketing Inventory Manager position, a promotion which transferred her to a different department. Her new responsibility was to oversee off-lease equipment which was returned to CIT's Jacksonville office. Werle's primary job function was to manage the warehouses to which CIT would resell (or "remarket") this off-lease equipment. If a customer wished to return equipment at the end of a lease, her team would send a return authorization to the lessee, instructing them to send the equipment to one of CIT's approved warehouses. The warehouse would then resell the equipment, paying CIT the proceeds minus a commission percentage.

Werle's supervisor was Niakan. He was born in Iran, but attended college in London. He was an outspoken opponent of the current Iranian regime. Several

members of his family eventually settled in the United States, and Niakan would help support them. Niakan was generous with his family as well as his coworkers. His subordinates thought he was a great boss. He was married with two young children. Werle remembered Niakan mentioning that he and his wife went through several attempts at expensive in-vitro fertilization before they were finally able to have their twins. He was hired by CIT in January 2000. In October 2001, his supervisor, Senior Vice President Denise Thompson, promoted him to Director of Asset Management. Thompson had a social relationship with Niakan in addition to a professional one. They would occasionally have dinners with each other's families. Their friendly relationship did not prevent Thompson from criticizing his performance when it fell below her expectations. In his 2002 Annual Review, Thompson warned Niakan that his team needed improvement in their end of lease sales and inventory returns. CIT was a publicly traded company, so there was a lot of pressure on Niakan to meet the numbers each month. As Director of Asset Management, Niakan was responsible for the Remarketing Department that Werle managed as well as the End of Lease Department. This meant that he was in charge of all returning off lease assets at the Jacksonville branch.

Werle thought back to the biggest red flag that alerted her that something was truly amiss. On July 14, 2004, when Niakan was out of the office for a few days on business, Werle received a phone call from a customer called PGT Industries, indicating that they had returned their leased equipment as instructed. Werle replied that she did not authorize PGT to return any equipment. She checked all of her files and was not able to find any record in the company's Inventory Tracking System,

letters database, or Infolease system of anyone having sent PGT authorization to return their equipment to a remarketer. PGT said they did receive instructions and they faxed over the return authorization from CIT to prove it. Werle was confused. The return authorization referenced a warehouse name and address that she did not recognize as an approved CIT remarketer. CIT had a list of approved warehouses that had permission to resell the company's off lease equipment and this warehouse was not one of them. The equipment was directed to go to Venture c/o Tim Williamson. That name sounded familiar. Werle remembered hearing Niakan mentioning a friend of his named Tim Williamson. She was baffled. She could not understand why the customer would have received a return authorization listing a non-approved remarketer. Puzzled, Werle thought to herself, "I will discuss this with Niakan when he gets back."

In the meantime, Werle decided to do some research. She looked up Venture on the Florida Secretary of State website and found out that the full name was Venture Fitness. This did not make any sense to her. Why was CIT's office equipment being sent to a fitness company? The company was located in Jacksonville, and yet Werle had never heard of them. She decided to drive by Venture one night after work to check it out for herself. Venture turned out to be a seller of fitness equipment. It had a few bays, but no docks or loading ramps like the ones normally found in CIT's contracted warehouses. What use could this business have for pallets of computers?

For the next few days, Werle dug through her records to see what other warehouses were receiving shipments despite the fact that they were not on CIT's approved vendor list. She came across one called E-Remarketing. The owner was

listed as Nasser Kadkhodaie. At this point, Werle started getting suspicious. She distinctly remembered Niakan mentioning Nasser as one of his close friends. Two unapproved vendors were receiving CIT's assets and both happened to be good friends of Niakan. This did not sound right. Werle decided to investigate E-Remarketing in person. She drove by the company and noticed it was in a little office with no sign on the door. It did not look like an appropriate place for receiving large equipment deliveries. Why would Niakan violate company policy and sell computers to an unapproved remarketer who was a personal friend?

Werle suddenly recalled other red flags that she had previously dismissed. She remembered how Niakan would ask his End of Lease team and Werle's Remarketing team to always notify him when large amounts of computer equipment were scheduled to be returned. He told her it was because he could make good deals for CIT. Werle thought back to an incident that occurred just one day before the PGT phone call. Werle received notice of a large amount of computer equipment that was being returned by Regis High School. Since Niakan was out of the office, Werle took the initiative to research some remarketers who would be able to sell this equipment. Niakan called Werle at the office later that day to check in:

Niakan: So, how is everything going back at the office? Any news?

Werle: Things are going great. Actually, we are expecting a shipment of computers back from Regis High School. I've started looking into a few remarketers that might be able to sell these for us. –

Niakan: A new shipment? How big?

Werle: It's pretty big – about fifty computers.

Niakan: Ok, listen. I'll handle this contract when I get back, ok?

Werle: I don't mind doing this one. I know you're busy. I can handle this.

Niakan: No. Don't do anything with these contracts. I will personally take care of them, ok?

Werle: Ok...

Werle remembered feeling dissatisfied with this conversation. She believed she could handle this account. Why was Niakan so reluctant to let her deal with it, when it was obvious he had other work he needed to get done? She continued to research remarketers anyway, just in case. The next morning, just hours before the PGT phone call, Werle found a sticky note on her desk from Niakan, along with a copy of the Regis High School lease. Attached to the top of the lease was a business card from E-Remarketing. The note said, "Nasser has the better deal now." When Werle read the note, she felt doubtful. She did not believe that Niakan had made offers to anyone other than his friend Nasser. Niakan had been out of the office, and it was hard to believe he had been negotiating with other companies during that time. Even more disturbing was the fact that even though he was not at work either that day or the day before, he managed to enter the office sometime during the night and leave that note on Werle's desk.

First the note, then the PGT phone call – Werle decided something was definitely not right. She decided to go ahead with her research and find another company to resell these laptops to. She decided to offer it to Dauer Business Services, which was based in Chicago, Illinois. They had contacted Werle in the past looking for off-lease equipment to resell. Werle sent them an email with the equipment information and requested an offer. Dauer offered her \$240 per laptop. When Niakan

was back in the office a few days later, Werle went to him to find out what Nasser was offering. She remembered this conversation vividly:

Werle: You left a note on my desk saying that Nasser has the best deal for the Regis High computers. I was wondering, just how much is he willing to pay?

Niakan: He's willing to pay more than any of our other remarketers. That's why I'm letting E-Remarketing have this deal.

Werle: But how much will he pay per laptop?

Niakan: Oh, I don't have the exact figure off the top of my head.

Werle: How about an estimate?

Niakan: Um, let's see... it was... Nasser will pay us \$225 per laptop.

Werle: \$225? Well, I contacted Dauer, and they gave me a better offer - \$240 per laptop. That's \$15 more than Nasser's offer. I'm going to give them the deal instead of E-Remarketing.

Niakan looked surprised, but did not protest. Dauer was not an authorized remarketer either, but Werle did not think this would be a problem. Because Niakan trained her, she would occasionally see computers going to remarketers not on the CIT approved vendor list. She did not think to question this deviation from company policy. Niakan ran the office, so Werle assumed that what he was doing was normal. Werle sighed. Why hadn't she asked more questions while she was training?

After her visits to Venture Fitness and E-Remarketing, Werle realized that those locations were not even remotely close to being appropriate vendors to receive CIT equipment. Werle wanted an explanation as to why Niakan was sending computers there. She took the faxed copy of the return authorization from PGT to Niakan's office. She placed the fax on his desk.

Werle: I have a question. I received this fax from PGT indicating that you wanted them to ship their computers to Venture. Why would you instruct them to ship to this vendor?

Niakan: PGT? Oh, I took care of that already. It's done. Don't worry about it.

Werle: Well, Venture is not on the list of approved remarketers.

Niakan: So? We do not only sell to vendors on that list. How many times have you seen me use a different vendor? I go with whoever has the best deal.

Werle: But Venture is not even a remarketer. It sells fitness equipment. And I have not seen any checks coming in from Venture for any sold computers.

Niakan: Oh, well they... uh... I'll look into that and see why that is...

Werle: What is going on?

Niakan: You don't want to know about it.

Werle: What do you mean by that?

Niakan: I mean don't worry. We'll get our money by month end.

Werle: This month or next month?

Niakan: Umm... it should be here by next month... Listen, I made a bad deal, ok? I already called the guy at Venture and I threatened to cut his arms off if he didn't pay. So he'll pay. Listen, you don't want to know what I do sometimes, but you will reap the benefits because I bring in a lot of money. So don't worry about what I do. Shannon didn't worry about it. She just let me do my job. I think you're taking on too much. You need to ease up on your work load a bit. Just pass on all of the large computer transactions to me and I'll take care of them. They take too much time and you have enough to do. I can get the good deals on them. I'm a good salesman. I'm a hustler, you know, I can make things happen. So don't worry about it, ok?

Werle remembered leaving Niakan's office feeling unsettled. She recalled that Shannon Geiser was the Remarketing Inventory Manager prior to her. Why did she never question Niakan's actions? She also did not understand why Niakan wanted her to pass on more work to him. He was always complaining about all of his responsibilities and how he did not have time to manage his other team. Werle could not fathom why he wanted to manage this part of her job on top of everything else.

A few days after this conversation, Werle noticed that Niakan had entered notes into the Infolease system for the PGT contract stating that he was taking care of this account. Notes like this would cause anyone working on this account to refer all questions directly to him. By doing this, he essentially took control of that account.

Two weeks later, Niakan was out of the office again. During that time, mail for the End of Lease Department would get delivered to his desk. As the manager in charge while he was away, Werle would go to his desk and distribute the mail accordingly. One of the items on his desk that day was an invoice from Tantara, a freight company CIT recommends to their customers. CIT also used Tantara for repossessions. When Niakan was training Werle, he informed her that he would take care of all Tantara invoices.

Because she knew how invoices were paid, Werle decided to turn this one into the accounting department for payment. She wanted Niakan to have one less item to deal with when he returned to the office. The invoice was for the pickup and delivery of equipment from the University Of North Dakota to the same suspicious Venture location in Jacksonville. It appeared to be for a large amount of computer equipment. Werle called Tantara to ask what the Venture invoice was for, and Tantara asked her to clarify which Venture invoice she was referring to, since they had multiple deals regarding deliveries of computer equipment to Venture. At this point Werle became alarmed. Not only were large amounts of equipment going to this unauthorized company, but CIT was getting billed for the shipping. Before this instance, Werle rarely saw equipment being sent to non-contracted remarketers and even less frequently would CIT pay for the shipping costs.

Werle could not ignore this third issue. In August, one month after that initial suspicious phone call and fax from PGT, Werle asked Thompson, Niakan's supervisor, if she could talk to her privately. They went into a conference room and Werle told Thompson about her suspicions that Niakan was conducting shady transactions. She mentioned how Niakan directed PGT's off lease computer equipment to his friend Tim Williamson at Venture Fitness. She also mentioned that Niakan gave the Regis High School account to his close friend Nasser, as well as having CIT pay for the shipping of equipment from the University Of North Dakota to Venture, even though this was clearly against company policy. Thompson decided to conduct an internal audit.

During the two-week audit, CIT discovered that Niakan was diverting company owned assets to Venture Fitness and E-Remarketing. CIT never received payment for this equipment. They also discovered invoices for the shipment of equipment to Venture that Niakan had signed off on and turned into Accounts Payable for payment, even though it was not the policy of CIT to cover shipping costs. There was no doubt in anyone's mind that fraud was occurring at CIT.

In the meantime, Niakan continued to divert company assets. At one point during those two weeks, he handed Werle a copy of a check from Asset Recovery Specialists in the amount of \$82,125.00 and instructed her to close out contract number 001-0017668-000, which was a University of North Dakota contract for 565 laptops. However, Niakan did not know that Werle had already spoken to the Asset Recovery Specialists Representative and found out that the check was for the purchase of only 365 laptops. It appeared that during the audit, Niakan managed to divert the other 200 laptops to Venture.

At the conclusion of the audit, Thompson arranged a meeting and invited Niakan. Several corporate executives flew in from New York to attend. The purpose of the meeting was to interview Niakan and see if he could explain his actions. Werle was not present at the meeting, but she heard about what happened from Thompson. Niakan's demeanor changed significantly from the beginning of the interview to the end. At first, he answered questions easily and confidently. As the questions turned to his relationship with E-Remarketing and Venture Fitness, Niakan became increasingly flustered. He explained that Venture was a drop off site for Karl Griner, with whom he had a one-time deal to sell computers. He could not explain why some

Venture accounts were closed with no payment and why some assets were never entered into the Inventory Tracking System. He slumped down lower and lower in his chair. Finally, he said, "I'm not going to incriminate myself further. Make whatever decisions you are going to make." He was asked to leave the office. After some deliberation, CIT called Niakan to inform him that he was fired. CIT's Corporate Office also contacted the Florida Department of Law Enforcement (FDLE) to begin a criminal investigation.

Three days after Niakan was fired, Karl Griner called Werle at her office. He informed her that he had a weird conversation with Niakan the night before. He said Niakan told him he had been fired from CIT. Griner told Werle that he had purchased computers from Niakan. He had some ready to be shipped to his buyers, but after the conversation with Niakan he was not sure if he was getting them "legit." He wanted to know if he should send the money to CIT.

Werle wanted to find out more about how Griner and Niakan conducted business. She asked Griner how these computer sales would occur. He explained that Niakan would call him when he would have 15 to 60 computers available. Griner would then pick up the computers from Niakan's home or from a drop off point called Venture. He would buy the computers from Niakan for \$220 to \$250 apiece. He would pay Niakan by check and would put Niakan's name, not CIT, as the payee. He said he was made to believe that the money he paid Niakan was given to CIT. Griner said he started buying the computers from Niakan about a year ago. He told Werle that he had purchased between 200 and 300 units. He would sell them to a distributor in Lakeland, Florida. He claimed to have paid \$20,000-\$25,000 for the computers in

total. Griner said that after talking to his wife he wasn't so sure about Niakan and he would rather deal with CIT directly. He told Werle that Niakan had given him her number and told him to call. He also told Werle that he was an officer with the Jacksonville's Sheriff's Office. Werle thought it was strange that an officer would be dealing with computers without knowing whether or not they were received legitimately. Also, Griner's figures did not add up. If he paid \$20,000 to \$25,000 for 200 to 300 units, that translates to about \$100 per computer, less than half of the \$220 apiece that he claimed to pay earlier and far less than the computers were worth. At the end of the conversation, Griner gave Werle his cell phone number, and she said she would get back to him about the computers at his home. Werle notified FDLE and they seized the stolen CIT assets from Griner's residence.

Werle leaned back in her chair and thought back to how Niakan was able to carry out this fraud. All of the signs were there, how could she have missed them? When she was trained by Niakan, Werle was instructed to record only a set amount of inventory each month, to keep earnings smooth. Every public company had to manage earnings, he would tell her. He even had certain remarketers hold inventory in a separate file and pay separately, so the inventory would not be seen in CIT's system. Werle remembered one specific instance when Niakan prepared a monthly aging report for Thompson. Werle asked to see this report, but Niakan did not want to show it to her. She persisted in asking and finally he sent it to her, warning her that the figures would not match what was in her system. He told Werle that he took out some accounts, so that Thompson would stay off his back. Reconciliations were never performed to make these numbers match because there were too many exceptions

going back too far. Also, Niakan directed employees to send contracts with large amounts of computer equipment directly to him and he would then take over the disposition process for accounts himself in order to close unpaid accounts without raising suspicion. Werle also thought back to Niakan mentioning how expensive it was for his wife to try and have children through in-vitro fertilization. Niakan had financial pressure at home coupled with earnings targets at work. How did she not spot these issues earlier?

CIT had several controls in place to ensure that off lease inventory was handled appropriately. Once the decision was made by the lessee to return the equipment, the lessee would be sent return authorizations indicating where to ship the equipment. When the remarketer received the equipment from the lessee, they forwarded a report to the inventory manager to notify them of the equipment's receipt. The inventory manager then updated the Inventory Tracking System and inventoried the asset in the Infolease system. When the asset was sold, the remarketer forwarded a check to CIT with the proceeds of the sale. The inventory manager then forwarded the information to the cash operations department to apply the proceeds and close the contract. If funds were received after an inventoried contract had been closed, the funds were applied to the contract. This allowed CIT to have an audit trail and record the funds to the inventory valuation account.

Niakan circumvented the controls by stepping into the middle of the process and setting up a separate system that he controlled. Niakan would review a report that the Financial Reporting group provided, which showed the contracts with large residuals that had lease dates expiring within the next six months. The report was

generated as a forecasting tool and was intended to be used to negotiate with the remarketers for the best deal on the equipment. Niakan used this report to determine the assets that could easily be sold outside of the normal process. Rather than allow an inventory specialist to be involved in the process, he spoke directly with the lessee and had the assets sent to an unauthorized remarketer. This remarketer did not forward information to the Inventory manager to notify her that the assets had been returned. Without this information, it was very difficult to determine if the assets had been delivered or not.

During the audit process, CIT and FDLE indentified 36 different diversions of CIT off lease equipment with a conservative total loss to the company of \$637,000. A financial analysis revealed that checks were written to Niakan personally for the purchase of CIT off lease computers. The related investigation also revealed multiple cash transfers between Niakan, Griner, and Nasser. The payments made by both Griner and Nasser were far less than the fair value of the computers they received.