

# The Value in Reporting

## Case Study: Hotline Reports



### OVERVIEW

A U.S. publicly-traded organization (the client) bought a manufacturing business (ACME) operating in the People's Republic of China (PRC) in 2011. While hundreds of PRC vendors served ACME, none had been subjected to due diligence prior to the sale.

### THE PROBLEM

From the time of the sale and over the next three years, employees from the PRC made multiple, specific hotline reports. Each report alleged that senior management officials in China were being paid millions of dollars in kickbacks from vendors. An internal audit conducted by the client revealed no evidence of wrongdoing. The client then consulted with a large, external accounting firm, that also found no wrongdoing in its annual audit.

### OUR APPROACH

KLINK began our investigation by reviewing each hotline report to gather as much information as possible. Each report contained detailed information, so our seasoned analysts were able to identify and locate specific people and companies participating in the scam. Utilizing this information, we then conducted discreet site visits and reputation checks.

The KLINK report revealed the 20 largest ACME vendors were not really manufacturers at all but were shell "trading" companies. The addresses provided by ACME were not in fact manufacturing sites, but rather vacant lots, alleyways and studio apartments as their addresses for the manufacturing site. Additionally, the reputation checks determined that senior management noted in the hotline reports had controlling interests in these vendors and shared the profits. And, together the vendors and ACME management were paying bribes to government officials.

### THE RESULTS

KLINK determined that ACME defrauded the client of more than \$3 billion.



### Key Takeaways

All hotline reports should be taken seriously

Our analysts saw the clues that others missed

Conducting due diligence on vendors should occur regularly



KLINK is an international business intelligence firm proactively and confidentially uncovering fraud, fictions and phantoms before they become financial, legal or public crises.

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