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Caveat emptor: A Study of Fraud, Red Flags, and Investor Due Diligence

An Honors Thesis submitted in partial fulfillment of the requirements for Honors in Accounting.

By
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Under the mentorship of Dr. Dwight Sneathen

ABSTRACT

For decades fraud has been an ever growing problem in our society, costing Americans hundreds of billions of dollars each year. Every investor and consumer pay for the effects and damages of fraud directly or indirectly. Investors need to proactively search for red flags before investing. Through an examination of two recent frauds, Theranos and Fyre Media, I will discuss the frauds perpetrated and the red flags present that investors missed.

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December 2019
Accounting
University Honors Program
Georgia Southern University

Acknowledgements

I would like to thank Dr. Sneathen for all his help and guidance throughout this project, without him this thesis would not have been possible. I also want to thank my family for always supporting and encouraging me.

Introduction

Fraud has been around for thousands of years, continues to be a problem for businesses, and costs Americans hundreds of billions of dollars each year. This paper looks into how fraud impacts investors, and how investors can protect themselves by doing the proper due diligence. Investors in publicly traded companies are protected by regulations governing internal controls and financial reporting. Unfortunately, in privately held companies there can be limited or no regulatory oversight. I will examine two recent frauds, Theranos and Frye Media, to discuss the impacts of fraud and the red flags investors missed. In some circumstances, investors may disregard their due diligence and go against their better judgement with the prospect of getting in on the ground floor of the next big Apple. Investors need to be cautious while considering investment opportunities that lack sufficient scrutiny and oversight which may allow an entrepreneur to cast their grand vision in a misleading way.

What is fraud and its impacts?

Fraud dates back to 300 BC in Greece where a man took out an insurance policy on a cargo ship with a deal to pay back the loan with interest once the cargo boat docked. Instead of paying the loan back the man tried to sink his empty cargo boat and keep all the money. Fraud has been around forever, but in the past decades it has gotten more complex, and detailed. Now, fraud has become a much more relevant problem in our society.

Fraud is a misrepresentation about a material fact, which is believed and acted upon by the victim to the victim's damage. Researchers found that to better understand fraud one must understand the factors behind the fraud. With years of research, Donald Cressey wrote *Others Peoples Money: A Study in The Social Psychology of Embezzlement,* where he described three elements that are present when fraud occurs. He identifies these as the fraud triangle. (Cressey, 1973)

The three elements of the fraud triangle are; pressures to commit fraud, opportunity to commit fraud, and rationalization of the fraud. Pressures to commit fraud is the motivation to commit fraud. External pressures include financial troubles, debt, greed, or illegal activities like gambling or drug addictions. Internal pressures come from within the workplace like too much work or high pressure to perform. Opportunity addresses the perpetrators access to the assets or information that are used to commit the fraud. This may be exacerbated by weak internal control systems, no segregation of duties, and little management oversight. Rationalization of the fraud justifies the fraud to the perpetrator. Rationalizations fall into three categories; borrowing, entitlement, and management's behavior. Perpetrators that rationalize with borrowing typically say they intended to pay the money back, and therefore in their mind, they did not steal. Entitled perpetrators believe they are being paid too little or deserve more, and they are just taking what should be theirs. When management models bad behavior, like fraud, employees copy them, using an 'everyone else is doing it' attitude. (Cressey, 1973)

The Association of Certified Fraud Examiners (ACFE) studied 2,690 cases of fraud from 125 countries with a total loss of seven billion dollars, with a median loss of $130,000 and only 22% of frauds exceeding $1 million. (Denman, 2018) Fraud costs can be put into three categories; fraud losses, fraud prevention, and fraud response. Fraud losses consist of the direct monetary losses from the actual fraud. Fraud prevention costs include internal control systems and fraud detection programs. Investigation costs and legal fees in association with prosecuting the perpetrator are part of the fraud response costs.

In many cases, the victims of fraud end up paying for the damages. Many perpetrators use the stolen assets, and cannot pay back the company they defrauded. This leaves the fraud prevention and fraud response costs in the hands of the primary and secondary victims. Primary victims are the shareholders, and individuals directly connected with the organization. Secondary victims are consumers who pay higher prices to pay for the cost of fraud.

When we look at fraud from the standpoint of the parties involved we usually see those who commit fraud on behalf of the organization like financial statement fraud, or those who commit fraud against an organization like employee fraud. The perpetrators committing fraud on behalf of an organization usually consist of upper management and executives, while those who commit fraud against an organization are employees or outsiders. This table depicts common types of fraud and their perpetrators and victims that Denman identifies.

Fraud	Perpetrator	Victim	Description
Employee Fraud	Employee	Employer	Employee uses position to take or divert assets
Vendor Fraud	Vendor	Company that receives good or services	Vendors overbill or under-deliver
Customer Fraud	Customer	Company	Customers underpay or get assets through deception
Management Fraud	Management	Shareholders	Management manipulates financial statements
Investment Fraud	Anyone	Investors	Persuade investors to invest money
Miscellaneous Fraud	Anyone	Anyone	

The majority of the fraud studied by the AFCE can be put into three categories of fraud: asset misappropriation, corruption, and financial statement fraud. Asset misappropriation consisted of 89% of the frauds studied. This classification has the highest frequency because anyone in the company can commit this type of fraud if they have access to company assets, but it had the lowest median cost. Corruption appeared in 38% of the frauds committed, and this is usually perpetrated by higher-level management. Financial statement fraud had the lowest percentage of frauds at only 10%. To commit financial statement fraud one must be in top management, while it occurs the least this type of fraud had the highest median damages. (Denman, 2018)

Considering the data above, we would expect to see the position of the perpetrator would align with the size of the fraud. Owner or executive fraud consisted of 19% of all the frauds studied and had a median of $850,000 in costs. Manager fraud had a median of $150,000 stolen with 34% of frauds studied. Employee fraud has the highest percentage of frauds perpetrated with 44% but had the smallest median cost, $50,000.

Perpetrators are usually going to try and conceal their activities. According to the AFCE study the most common ways to conceal fraud are creating or altering physical and electronic documents, destroying any evidence and documents, creating fraudulent transactions and journal entries. In all cases of unconcealed fraud, the fraud was committed by top management. (Denman, 2018)

According to the study, after finding the fraud:

- 65% of fraudsters get terminated
- 12% reach a settlement
- 10% resign
- 8% are suspended
- 6% receive no punishment.

Once criminal charges are pressed and frauds are turned over to federal investigators only 1% can avoid a conviction and 18% of the cases prosecutors decided not to pursue any charges. (Denman, 2018)

It is important to realize that many companies do not publicly report fraud because of the negative public perception that will come from it. With that in mind, the study only looked at 2,690 reported cases of fraud with seven billion dollars in damages, while it is estimated that fraud costs Americans over 650 billion dollars each year. (Coenen, 2019)

What are the Red Flags?

A red flag, by definition, is a sign of danger or an indication that you should stop. In the context of frauds, red flags are indicators of an increased chance of fraud happening. While red flags do not prove fraud, they help employers, employees, investors and investigators focus in on areas where fraud is possible. Paying attention to these red flags might help people find abnormalities that lead to the detection fraud. Investors should always check for red flags in a company and consider the risk that they may present before investing.

The study previously mentioned showed that 85% of all fraud studied contained at least one of the most common red flags. (Denman, 2018)

Red Flag	Description	Data	Actions
Living beyond their means	Lifestyle changes, income does not match spending habits	Found in 41% of cases in the study	Investigate employees circumstances
Financial difficulties	Financial pressure to perform	Found in 29% of cases 35% of perpetrators were employees and 23% were executives	Find confirming behaviors of employee or family
Close vendor and customer relationships	Vendor and customer collude to take assets	Found in 20% of cases 24% of perpetrators were executives and 16% were employees	Look for indications of new money and suspicious activities
Control issues	Unwilling to share duties with others	Found in 15% of cases 21% of perpetrators were executives and 8% were employees	Look for unwillingness to take time off

Family and home problems	Divorce or family pressures lead perpetrators to commit fraud	Found in 14% of cases 20% of perpetrators were female and 11% were male	Be aware that divorce can create extra expenses like child support or alimony
“Wheeler-dealer” attitude	a shrewd business person who will do whatever it takes to succeed no matter the price	Found in 13% of cases 22% of perpetrators were executives and 8% were employees	Look for confirming signs, like carrying large amounts of cash

Employees that recognize any signs of red flags are in the best position to catch fraud early. Most companies have a whistleblower or tip hotlines available for employees to report any red flags or fraudulent activity they see. In the ACFE study, 63% of all the companies studied had such a program in place. 53% of the tips provided came from employees, 32% came from outside sources, and only 14% were anonymously reported.

While some of these red flags cannot be seen easily by investors, by doing the proper due diligence an investor can mitigate their risk. Before investing in a company an investor should always do research on the company but also top management. If the executives have little or no prior experience or training in the industry, then one might be more cautious of the investment moving forward. Investors should always ask for the company’s financial reports. If the company will not give this information out, or claims that they do not have financials available, one should always be skeptical if the business is legitimate. High risk equals high rewards, but if the deal sounds too good to be true then it just might be.

Examples of Fraud and Red Flags

Theranos Fraud

Elizabeth Holmes founded Theranos in 2003 at the age of 19. Theranos was a developer of medical technology that raised more than $700 million dollars from venture capital groups, and grew to a value over $10 billion over the next decade with the help of her Chief Operating Officer, Ramesh “Sunny” Balwani. After intermittent success Theranos created the ‘minilab’ that “could perform the full range of lab tests on tiny finger-prick samples” (Carreyrou, 2018). This forward-thinking idea led many powerful investors to Mrs. Holmes, even enticing “former U.S Navy Adm. Gary Roughhead and former U.S. Secretary of State George Shultz” (Weaver, 2017) to become board members of the privately held company, Theranos. Mrs. Holmes persuaded many that her technology would change the world, creating a healthier and longer life with her technology.

The minilab promised to use a finger prick of blood to preform dozens of diagnostic tests, including the Zika virus. This new technology was a cheaper alternative to labs. Theranos partnered with Walgreens to rollout the minilab in 2013, but the technology Theranos promised Walgreens was not actually capable of its promises. The minilab “could handle just one class of blood tests; to perform the dozens of others they had promised Walgreens their technology could handle, they needed a workaround. The solution was to secretly modify third-party commercial machines to adapt them to small blood samples. (Carreyrou, 2018)

In spite of the inability of this new technology to deliver on its promises, Elizabeth Holmes and Sunny Balwani continued to look for new investors. To this end Theranos stated that their products were being used in military applications, while such a contract never existed, and they falsified company reviews. Holmes presented exaggerated financial forecasts to potential investors to make their financial position look better. Subsequently the controller, Danise Yam, presented far more realistic revenues and profits numbers that were approximately one-fifth of the forecast Mrs. Holmes presentation. Media outlets started to question how without a proper technical background Holmes was able to create a revolutionary medical device. After finding that only one peer reviewed study of the minilab, they questioned if the device delivered on its promises. Once the media frenzy began, Tyler Shultz, grandson of one of the directors blew the whistle on Theranos and its misleading business practices. (Carreyrou, 2018)

The Securities and Exchange Commission began investigating the legality of Theranos' business practices and charged Elizabeth Holmes with fraud. Mrs. Holmes "agreed to a settlement with federal regulators that strips her of voting control of Theranos, bans her from being an officer or director of any public company for 10 years and requires her to pay a $500,000 penalty." (Carreyrou, 2018) After being charged criminally many independent companies and investors filled civil lawsuits with alleged losses over $700 million from investors. Criminal charges against Ms. Holmes are pending with her trial scheduled for the summer of 2020. (SEC, 2018) Theranos' former president and chief operating officer has denied any wrongdoing in the fraudulent activity but the SEC filed separate charges against Ramesh Balwani as well.

Fyre Fraud

Billy McFarland is an entrepreneur and founder of Fyre Media. Mr. McFarland started his first web based business at the age of 13, and continued to develop new ventures even dropping out of college to start an ad platform –Spling. In 2017 his newest project was an app that allows users to book celebrities and influencers seamlessly. He created Fyre Media and decided to promote the app by holding a music festival to legitimize the apps ability to make connections to top talent.

The Fyre Festival, was designed to be a luxury music festival held over two consecutive weekends in the Bahamas with tickets ranging from $1,500 to $250,000 for one weekend. The music festival was to take place on Pablo Escobar's Island, with headliners like Blink 182, Kayne West, Tyga, and many more. With only a few months to plan the music festival, Billy reached out to rapper Ja Rule to help him run the festival. To promote the festival McFarland and Ja Rule reached out to the biggest social media influencers to post on Instagram about how the event will be "the cultural experience of the decade"(Shah, 2017), with all the hype for the music festival around 14,000 people were expected during both weekends.

Billy McFarland presented his grand vision of Fyre Media and Fyre Festival, and raised over 26 million dollars. His presentations mislead investors to think that pending partnerships were already confirmed and that they had the rights to eight million dollars’ worth of land in the Bahamas which they never did. In the presentation Billy only included one out of the 43 slides presenting the financials. (Abadi, 2019) By announcing their plans to have the music festival on Pablo Escobar’s private island, they lost the rights to use the island for breach of contract for using Escobar’s name. Because of the change in the venue estimated ticket sales were cut in half due to size constraints. The alternate site could only accommodate half the guests, however financial forecasts were never changed.

Leading up to the festival some news sources looked into the viability of the music festival considering the Fyre Festival was trying to accomplish in a few months what most music festivals take well over a year to do. McFarland was missing deadlines for advance payments, and festival-goers were not receiving their transportation and accommodation plans. Many were worried whether the festival was still happening. (Karp, 2017) Internally there were conversations about postponing the event, but Billy McFarland assured everyone that the festival would still be taking place and that everything was running according to plans.

When Blink 182 showed up the morning of the festival, they saw that there was no proper infrastructure for their performance they backed out of the festival. Once news got out, other artists refused to perform at the festival as well. While many of the attendees were delayed in Miami due to inadequate travel accommodations set up by the festival, McFarland cancelled the event. Those that made it to the festival were met “with a site that appeared unfinished, with dogs roaming the vicinity, limited staffing, and subpar food and amenities”. (Shah, 2017) They were unimpressed with the FEMA like tents for accommodation and remained stranded on the island. They used social media to expose the festival as a fraud.

Because many music festivals do not see profits the first year, Fyre Festival tried to compensate by charging high ticket prices in order to be profitable. Even with the elevated ticket prices, McFarland was not able to cover his financial commitments. To keep the festival afloat, McFarland lied "to investors about the condition of Fyre Media. He tricked one investor into buying an advance block of tickets for $2 million by providing company statements that grossly inflated its revenue and income." McFarland promised vendors and artists payouts even if the festival was canceled but again he lied and had never purchased such an insurance policy. (Hong, 2018)

A few months after Billy canceled the festival, the Securities and Exchange Commission charged him with wire fraud and scheming to defraud investors. "Mr. McFarland allegedly used false information to get at least two investors to invest $1.2 million into his business." (Randles, 2017) He falsified financial records for Fyre Media showing the company has earned millions, while in reality the company only earned around $600,000. (Hong, 2018) Billy McFarland plead guilty to two counts of wire fraud in court and now faces six years in prison for his actions. Throughout the entire legal process both Billy McFarland and Ja Rule, maintain that Ja Rule "never took a penny of investor money" (Hong, 2018), and Ja Rule was never charged with fraud.

Red Flags

Were there any red flags that would have provided some indication to investors that either of these investments were at risk? As discussed earlier, the number one red flag of fraud is living above one's means (Denman, 2018), and Billy McFarland exemplified that. Without clear means of support, he was "living in a Manhattan penthouse apartment, partying with celebrities, and traveling by private plane and chauffeured luxury cars." (SEC, 2018). By creating an aura of luxury, Billy was able to convince those around him that he was a skilled and trustworthy entrepreneur.

According to the AFCE study, 15% of all frauds studied showed signs of control issues. (Denman, 2018) Because Theranos was a privately held company Elizabeth Holmes had unchecked power with most of her board of directors not involved in any operations. Additionally, many of the board members did not have medical or technical knowledge to fully understand the product. This lack of a check on executive power, and their lack of transparency, was a huge red flag that many investors missed. Internally they created a toxic and hostile work environment, creating and "enforcing a corporate culture of secrecy and fear". (Carreyrou, 2018) The executives were seen as so controlling that when Balwani fired anyone, the employees called it "Sunny disappeared him" (Carreyrou, 2018). This power even let Holmes and Balwani force a microbiology team to vacate their lab so that they can create a stage the lab to show former Vice President, Joe Biden. (Carreyrou, 2018) Employees could not speak out about their work culture due to strict non-disclosure agreements, but some disgruntled employees posted scathing reviews on Glassdoor. To counteract the negative review Holmes and Balwani forced employees to post positive review, and they got Glassdoor to take down the original negative post.

Both Billy McFarland and Elizabeth Holmes had a ‘wheeler-dealer attitude’ toward their business succeeding. To a certain extent they were willing to do anything to make things happen. Perhaps they believed that their plans would ultimately come together, however, that does not justify their means. In both of these frauds, investors were presented with misleading financial forecasts and valuations, insurmountable obstacles in product efficacy and logistics plans were covered up and almost ignored, and finally the house of cards crashed down. Neither entrepreneur was able to admit their failure and rationalized all of the steps they took to make it work no matter the circumstances. For example, Elizabeth Holmes knew when signing the contract with Walgreens, that her invention could not meet the expectations. She went ahead with the contract and found a roundabout way to conceal her technology’s problems. (Carreyrou, 2018)

Financial difficulty is another red flag. McFarland repeatedly missed payment deadlines, and pushed back the finalization of festival goers travel plans. Weeks before the festival several artists claimed that they had not been paid in full, or that Fyre Media missed payment due dates. (Karp, 2017) Missing these important payments showed investors that they did not have enough cash flow and assets to pay off all their current liabilities, which can be seen as a sign of financial distress or asset misappropriation fraud. Days before the Fyre Festival, Billy McFarland knew he could not pay the customs fee of $150,000 to get four truckloads of water for the festival. Due to a lack of money he ordered an employee to perform a sexual act with a customs official for them to release the water without payment. (Smith, 2019)

The position of those who committed the fraud and results of the frauds are somewhat similar in these examples. These frauds were perpetrated by the executives of the companies, giving them both the power to continue the façade for a number of months or years. The higher in an organization a fraudster is the more control they have over information. Investors and employees put their trust in them and their vision and may not question their decisions. (Denman, 2018). Holmes and McFarland also faced the same fate during their demise. Holmes was forced to resign and stripped of all her power in Theranos and is barred from being an officer or director of a public company, per her settlement with the SEC. (SEC, 2018). While Holmes settled out of court for her civil charges, she still awaits a criminal trial in the summer of 2020 and can face up to 20 years in prison. When McFarland plead guilty to his charges, he was stripped of his position at Fyre Media and is barred from ever being a director or officer of a public company. (SEC, 2018) Currently, McFarland is serving his six-year sentence in federal prison in New York.

Investor Protection

All companies should have internal controls in place, but all publicly traded companies are required to have sufficient internal controls in place and meet specific requirements set by the SEC under the Sarbanes-Oxley act of 2002. It entails that financial statements be audited to safeguard assets, and protect investors. An external auditor must examine the internal controls and their effect on the financial data, and express an opinion on how well they work. Auditors look at IT security, access controls, and data backup to ensure that proper safeguards are in place for sensitive information. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), a joint initiative with five private organizations to combat corporate fraud, describes internal controls as ways to eliminate the opportunity for fraud. Looking at the auditor's report in a company's annual report should be the first thing an investor does before deciding to invest.

COSO describes the first step in an internal control system as setting the tone at the top of the company. Top management should act with integrity and show ethical values to establish a control environment for employees to follow. Risk assessments should be done to find weak control areas. Control activities like segregation of duties, physical safeguards, authorization systems, record keeping, and independent checks are used to provide reasonable assurance of fraud reduction. The effectiveness of internal controls in place ultimately depends on the trustworthiness of those implementing them. According to the study done by the AFCE, 30% of frauds occur when there is a lack of internal controls and only 19% of fraudsters were able to override the internal controls in all the cases studied. (Denman, 2018)

The AFCE study found that only a few companies had anti-fraud controls in place, with only 37% of companies using proactive fraud monitoring and 37% using surprise audits. (Denman, 2018) For investors to make sure that their money is safe from fraud, they should properly research and ensure the company has proper anti-fraud policies.

An anti-fraud policy should tell employees and investors how the company: (Denman, 2018)

- Defines fraud
- The source and scope of the policy
- How to report fraud
- The consequences of committing fraud
- Who the investigating authority is
- How the company communicates its policy.

With a proper anti-fraud policy employees should be aware of the dangers of fraud and the impact on the company and individual. Rewards for employees detecting fraud, proactive fraud audits, and whistleblower programs are all effective anti-fraud systems. When management creates an expectation for any dishonesty to be punished, fewer people commit dishonest acts. Once companies let one fraud go unpunished, more frauds will occur. In a 2018 study of the impact of internal controls and anti-fraud awareness, researchers found a significant correlation of anti-fraud awareness and a reduction of fraud. “The increase of anti-fraud awareness will increase fraud prevention.”(Jalil, 2018)

Why Investors missed it and how to protect investors

Caveat emptor is Latin for “Let the buyer beware.” In the investment world that would suggest that the investor bears the responsibility of looking into a business venture before making that investment. While there are mechanisms in place to try and minimize the opportunities to commit fraud, one must still do their due diligence. Unfortunately the prospects of big returns can override the investor’s concerns and lead to the sort of outcomes we have seen above. It is possible that the red flags in both frauds were overlooked by many investors because they wanted to be a part of the next big medical device or app. Some investors compared them to Apple or the Coachella Music festival. The returns could be enormous.

Investors should always research the company and even the CEO before making any investment in a company. Both executives had no prior experience in their respected fields, Ms. Holmes never had any medical background and dropped out of Stanford without a degree before starting to pursue her career as a medical technology executive. While her COO, Balwani was successful in a technology startup, neither had any experience in the medical field. (Carreyrou, 2018) Mr. McFarland had experience running a small startup company, he also did not have any experience in the music festival industry, and neither did his partner Ja Rule. Billy dropped out of school after a few months of studying computer engineering, which helped him create the Fyre Media app, but he did not have experience or connections in the music industry.

The SEC requires that all public companies have external auditors test their internal controls and attest that there are no material weaknesses. In a public company's annual reports, the SEC requires them to include a management report on internal controls over the financial reporting section which provides reasonable assurance about the internal controls in place. While public companies have open information about internal controls available to investors, private companies are not required to disclose any information about their internal controls.

Reporting requirements for private companies is less structured than for public companies. The requirements can vary based on agreements with investors, but once a company grows larger than 10 million dollars in assets and over 500 common stock holders they need to file financial reports with the SEC. Private companies that large also need to file quarterly and annual reports similar to public companies. Many large private firms keep their common stock holders under 500 in order to avoid filing financial reports.

With limited regulatory financial information for private companies it more difficult for investors to double-check the information for accuracy. Before investing in a private company investors should be skeptical of all the information top management presents. Investors can follow a few steps to make sure the private companies they invest in are legitimate; visiting the company, researching the industry, and looking into the CEO and board of directors. By visiting the company, investors make sure to understand what the company does, and how the investment will be spent. When investors research the industry they become more familiar with financial projections, and financial ratios typical for the industry. Once an investor can identify unusual ratios and out of place numbers, they'll be able to make educated discussions on their investment. Looking into the CEO's and board of director's helps investors see the track record of top management. If the CEO of a new start-up has a lot of experience or training in the same industry, the higher the chance of the company surviving.

If more investors researched Billy McFarland before investing in the Fyre Festival, they would have uncovered his prior failed business. Magnises, "a black card like club" (Bloomberg, 2017) for young millennial socialites. While Magnises was successful at first member complaints began to mount. Members would purchase tickets to concerts and Broadway shows through Magnises, and then the tickets would never show and exclusive Magnises events would be canceled. One member tipped off the consumer protection bureau, after being denied Broadway tickets he purchased. (Bloomberg, 2017) McFarland's inability to deliver with Magnises was foreshadowing the failure of Fyre media.

Conclusion

All investors must beware of the risks of investing and need to do their proper due diligence. As we can see in the ACFE study, fraud is as widespread as ever, making investor education and protection even more important. The SEC has requirement for internal controls and reporting procedures for public companies, but the same standards do not apply to private companies. Even though investors like to get in on the front end of companies, they need to beware of the added risks. As seen in the examples, those that invested early without the proper due diligence ended up losing their investment. When investors proactively watch for red flags and research companies before investing money, they set themselves up for less risk.

All of this begs the question, how did Walgreens sign a contract for a medical deceive that never delivered on its promises? Elizabeth Holmes had to find workarounds to supplement the tests the minilab could not preform. Is this a reflection of investor negligence or the ability of Elizabeth Holmes to sell investors? In the case of the Fyre Festival, is the outcome a reflection of attendees desire to be a part of the next Woodstock like event overriding their better judgement, or is it a demonstration of the McFarland's ability to persuade others.

Forensic accountants and auditors are taught to always be skeptical of what others say, investors should also be skeptical and use their best judgment to figure out which company to invest in. If the company seems too good to be true, like high rates of returns or futuristic technology, investors should beware that it may be a fraud.

Caveat Emptor!

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