

EXPERTS WITH IMPACT™

In Data and Analytics



THE NEW ERA OF FRAUD TACTICS: DATA CONSIDERATIONS FOR MAXIMIZING RECOVERIES IN TECH-DRIVEN PONZI SCHEMES

In one of the largest Ponzi schemes in U.S. history, penny-auction site ZeekRewards defrauded hundreds of thousands of people worldwide, with more than \$822 million in victim losses. FTI Consulting combined a strategic multi-workstream approach with advanced data and analytics technology to understand what had happened and maximize asset recovery for hundreds of thousands of victims.

THE CHALLENGE: A HUGE SCHEME, UNCLEAR ACCOUNTING, AND A LACK OF SYSTEMATIC RECORDS

Before ZeekRewards was shut down by the U.S. Securities and Exchange Commission (SEC) in 2012, it was one of the world’s top 30 websites by volume, generating an estimated \$900m in transactions. The receiver encouraged any individual who felt they had lost money in the scheme to file a claim. With nearly 10 million “users” within the program’s database, the claim universe was potentially unlimited – approximately 175,000 claims were filed – far more than in any other investigated Ponzi scheme.

ZeekRewards encouraged participants to drive visitors to an auction site by purchasing “VIP” bids and giving them to potential “customers.” For each VIP bid given away, a VIP point was awarded. Points were totaled and ZeekRewards shared a percentage of the site’s daily revenue with participants based upon their balance. The daily award could be taken either as cash or as further VIP bids that could then be given away. When ZeekRewards was shut down, there were 3.5 billion VIP points distributed among participants, which the victims most often interpreted as cash. It was unclear how the company’s accounts differentiated between cash investments and reinvestments.

In addition, most transactions were conducted by mail with checks or money orders, and the company kept no books or records other than retaining deposit and withdraw information in an archaic transactional database. It was therefore difficult to find evidence about the company’s operations.



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THE SOLUTION: USING ADVANCED ANALYTICS TO UNDERSTAND THE PROGRAM

Following the SEC shutdown, FTI Consulting was engaged to work with the receiver representing the victims to prove the fraud, identify losses, and maximize asset recovery. FTI Consulting established two workflows for this engagement:

1. A team of accountants working through traditional processes of reviewing the stream of funds from subpoenaed bank statements to confirm relationships, and locating records for related deposits and withdrawals.
2. A team of data scientists investigating how the program worked through collection of data and application of technology to that data to analyze and recreate the full picture of transactional activities.

Accountants' workflow

To understand how the program worked, FTI Consulting used the company's responses to SEC requests re monthly revenue as a benchmark to recreate the program operation, and to make the most of fact-finding interviews with key ZeekRewards personnel. In this way, it was possible to identify the most important books and records.

FTI Consulting developed a process of identifying cash coming in from outside the program using a combination of technical assessments, the interviews with ZeekRewards personnel, and the output from the SEC's investigation. FTI Consulting also used correspondence received from the scheme's net winners and losers to validate findings.

Data scientists' workflow

With no available data dictionaries and limited access to key company personnel, FTI Consulting had to assess forensic copies of three disparate enterprise databases, containing more than 400 tables with more than 1.5 billion rows of transactional data.



To date, approximately 349,000 checks have been issued to victims, bringing overall recovery to 75 percent.



A technical program was developed to systematically run distributions on each table to identify the type and volume of records and fields contained within and the summary statistics. The results of these findings identified the key data on which to focus additional research.

A model for handling claims

Having clarified what had happened, FTI Consulting established an equitable model to handle the complex process of determining the percentage of reimbursement each claimant was entitled to and the amount they had already received. Each claim was evaluated and categorized as a program net winner or loser. Claimants who had made money required a Form 1099 for income earned, and/or were subject to clawback and distribution. The process had to allow for various baselines based on expected and realized clawbacks in parallel with victim stratification.

IMPACT:

LOSSES RECOVERED AND VICTIMS COMPENSATED

Using advanced analytics and the other techniques described above, FTI Consulting successfully recreated how the program worked, identified the way money flowed in and out of the company, and traced recoverable funds. Through careful, targeted analysis, FTI Consulting was able to recover the majority of losses, with minimal objections to the figures established.

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For further information on how FTI Consulting can be of assistance, please visit www.fticonsulting.com/data-and-analytics



David Turner
Senior Managing Director

+1 202 728 8747
david.turner@fticonsulting.com



Michael Busen
Managing Director

+1 202 312 9124
michael.busen@fticonsulting.com