



PREREQUISITE –CASE STUDY PREPARATION

CONTEXT:

You are an investigator with the **CORADA REVENUE SERVICE** of **CORADA**¹. Your Director has asked you to evaluate a referral² received by your tax agency from the civil section of the **CORADA REVENUE SERVICE**.

FOR YOUR ACTION:

READ the information provided in this document to familiarize yourself with the case study that will be used throughout the introduction to major case management course.

CASE FACTS

You've recently been assigned case to investigate Art Centre Export Ltd. (ACEL). The case was given case number **68941368**. This case was referred to the criminal investigations program from the audit program. As part of the referral, you were able to review the audit file as well as speak to the auditor. The details and facts of the audit ACEL are as follows:

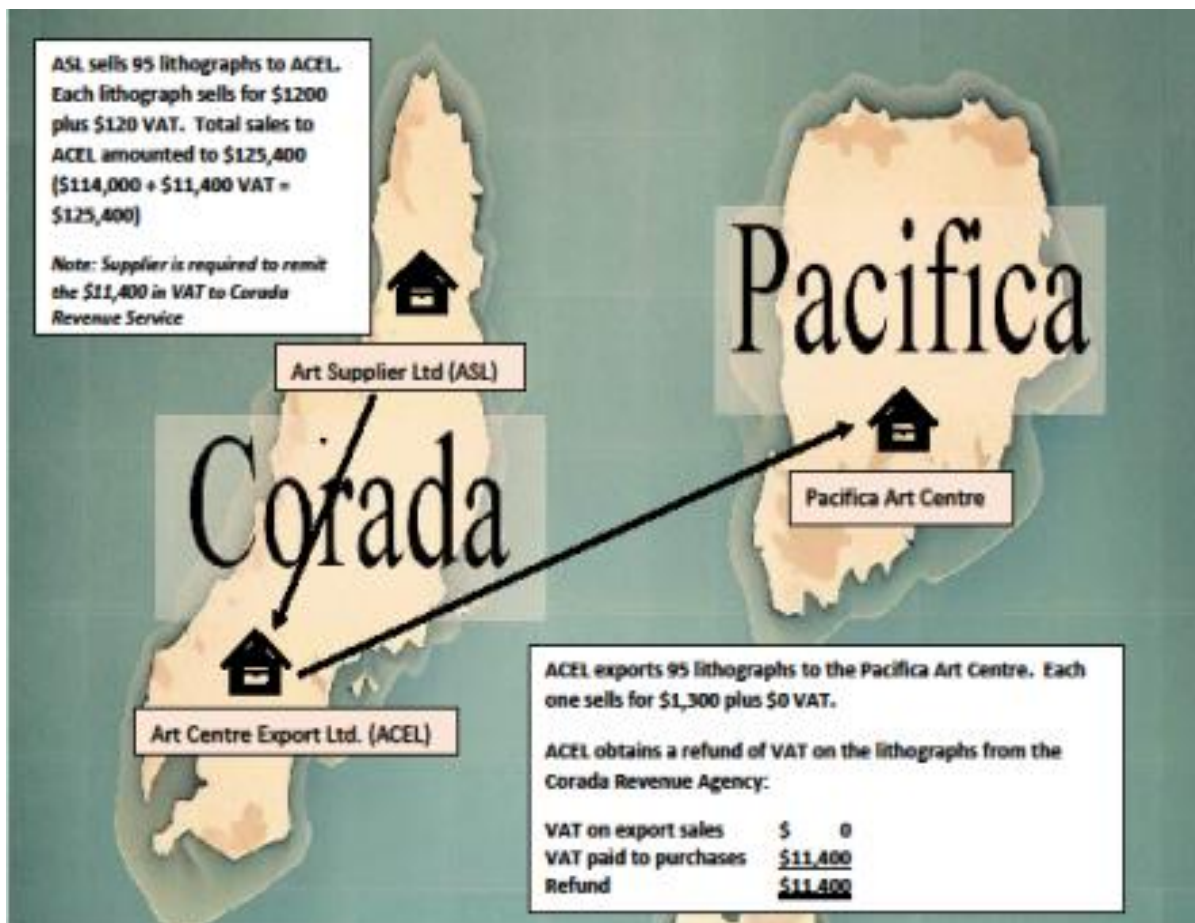
- The audit was originally assigned to an experienced auditor named Frank Smith to conduct a value added tax (VAT) audit.
- Frank started his audit by researching the corporate records of the company. He discovered the following:
 1. Art Centre Export Ltd. (ACEL) is registered for the VAT.
 2. ACEL lists as its business activity the purchase of art lithograph paintings from domestic suppliers which it exports internationally.
 3. ACEL's address in the tax authority's system is shown as: 100 Bank Street, Suite 270, Your City, Corada.
 4. Telephone number was 888-555-1234;
 5. ACEL's shares are 100% owned by Kevin Williams;
- During his audit, Frank spoke with the shareholder of ACEL who is Kevin Williams;
- As part of his audit plan, Frank conducted a VAT audit of a one-month period. He chose the month of April as his sample period.;

¹ For more information on how the Value Added Tax (VAT) works please see the "Corada Revenue Services VAT Overview" document.

² Referrals are received in CORADA from various sources including: the civil division of CORADA REVENUE SERVICE and other Law Enforcement partner organizations.

- During the April time period, Frank discovered that ACEL purchased 95 lithograph paintings from a domestic supplier by the name of Art Supplier Limited (ASL). Frank noted the following regarding the purchases:
 1. Each lithograph cost \$1,200 each.
 2. ACEL also paid \$120 VAT per painting.
 3. ASL's shareholder is Robert Williams.
 4. Frank determined that Robert is related to Kevin.
 5. Frank could not find an internet presence for ASL.
 6. Frank looked in the tax authority's system to see if ASL was remitting the VAT charged to ACEL. He noted that ASL was delinquent in its VAT filings.
- All of the 95 lithograph paintings were subsequently exported to a company in Pacifica called the Pacifica Art Centre. In verifying the sales, Frank noted the following:
 1. Sales invoices were reviewed and Frank found that each lithograph was sold for \$1,300 each.
 2. Total sales for ACEL for the month of April was \$123,500 (95 lithographs @ \$1300). ACEL had no other sales for April.
 3. Sales invoices to Pacifica Art Centre identified Miguel Garcia as the contact person.
 4. Frank did not find an internet presence for the Pacifica Art Centre.
 5. Sales invoices to Pacifica Art Centre showed an email address for ACEL as: ACEL123@kmail.Corada.
 6. As these lithographs sold were exported the VAT charged on them was \$0.
 7. Frank also reviewed Customs documents for the export of the lithographs. He found that the documents appeared to be in good order as all include the customary Customs stamp of export.
- Frank reviewed ACEL's corporate bank account and discovered the following:
 1. Frank traced the sales of the 95 lithographs sold in April, which amounted to a deposit of \$123,500, into the corporate bank account.
 2. Frank traced the VAT refund from the Government of \$11,400 paid to ACEL to its corporate bank account
 3. Frank noted that there were limited transactions in ACEL's corporate bank account. The month's activity included:
 - receipt of sales from the previous month of \$123,500,
 - receipt of VAT cheque from the tax authorities for \$11,400, and
 - a cheque in the amount of \$5,000.
 4. Frank checked with the bank and determined the cheque for \$5,000 was payable to Adam Williams. Frank questioned Kevin about the cheque. Kevin stated Adam was his brother and he owed him money.

- The amount of VAT related to the sale of the lithographs (for more information on VAT see the Corada Services VAT Overview handout)



- In verifying the April VAT refund, Frank noticed that ACEL claimed VAT refunds every month. For the twelve months (including the April month) ACEL claimed VAT refunds in the amount of \$136,800 for the year;
- Frank was concerned that ASL and ACEL had set up a scheme to claim fraudulent VAT refund claims. Based on this suspicion, he referred the file to the Criminal Investigations Program for review.

ADDITIONAL CASE FACTS:

You have now taken on this case and based on the investigative steps you have taken to date, you have learned the following:

- You've examined all the refund cheques to ACEL and you know that they were all deposited to a National Bank account, number 707-077 which is the corporate bank account;

- The cheques were sent to the address noted on the system for ACEL which was Suite 270, 100 Bank Street;
- You visited the address at 100 Bank Street. There were no suite numbers. You found that this location is occupied by UPS Worldwide. You spoke with the UPS Manager and he provided the following information:
 - They have their headquarters situated in Germany;
 - they have operated at this address for years;
 - they are in the business of shipping but also rent out mail boxes, provide shared work spaces where people can conduct business and provide access to a telephone service system;
 - you advised that ACEL listed its address as suite 270, 100 Bank Street. The manager advised that some of their clients will list their mail box number as a suite number;
 - the manager confirmed that Kevin Williams utilizes their rental space and telephone system.
 - you asked who rented box number 270 and were advised it was rented to Jada Jones;
 - To obtain any additional information you will need to obtain a Judicial Order.
- You look in your tax systems and find that Jada Jones reports the same address as Kevin Williams and both state they are single on their tax filings;
- As you are moving along in your investigation, your director approaches you to tell you that he has received referrals from 12 additional audits originating from throughout the country that appear to have commonalities to your original audit the ACEL case. Refer to the spread sheet on the following page (titled "Summary of Audits") for a summary of your original audit along with the additional 12 audits. He wants you to review the facts of each to see if they are connected.
- After your review, you conduct a search in the tax authority's systems by: Corporate name, Director name, Address, Telephone number and any other factor that could connect the corporations. You find a total of 54 corporations that export lithographs in the same or similar fashion.

SUMMARY OF AUDITS

Audit No.	Auditor name	Company audited (Exporter)	Exporter company director	Address location (various cities)	Domestic supplier of painting	Main country of export	VAT refunds paid to exporter (last two years)
1	Frank Smith	ACEL	Kevin Williams	UPS Worldwide	Art Supplier Limited	Pacifica	\$ 247,000
2	Jason Valin	Art Temple Inc.	Spencer Williams	Mail Boxes Etc.	Artsy Lithos Inc.	U.S.A.	\$ 205,335
3	Eddy Cugh	Unavart Ltd*	Adam Williams	The Mail Box Store	Lithographs & More	Bermuda	\$ 189,150
4	Anne Chiriqui	Artco.	Guy Groulx	Classic Postbox	Art Supplier Limited	Australia	\$ 165,750
5	Sophia Moore	Art-ex Corporation	Adam Williams	Business Mailboxes	Paints and Me	Bermuda	\$ 275,500
6	Benjamin Karlsen	Litho.Ex	Jenny Jones	Priority Mail Inc.	Lithographs & More	Australia	\$ 177,770
7	Mary Tavares	Ex-Artsy.com*	Spencer Williams	Mail Boxes Etc.	Lithographs & More	U.S.A.	\$ 211,115
8	Pietro Desmeo	National Art Export	Guy Groulx	Country A Rent-a-space	Art Supplier Limited	Italy	\$ 292,500
9	Thomas Mao	International Lithos	Kevin Williams	Classic Postbox	Artsy Lithos Inc.	Italy	\$ 154,540
10	Logan Drouin	International Art	Jada Jones	The Mail Box Store	Paints and Me	Italy	\$ 126,040
11	Micheala Domi	Art Distribution Network	Guy Groulx	Mail Boxes Etc.	Paints and Me	Pacifica	\$ 194,000
12	Nicholas Price	High Export Ltd.	Jenny Jones	Office Depot	Art Supplier Limited	Pacifica	\$ 197,570
13	Noah Roy	Unique Export	Jada Jones	UPS Worldwide	Artsy Lithos Inc.	Italy	\$ 126,300
						Total	<u>\$ 2,550,715</u>

* These companies have the same telephone number