

Risky Business: Managing Risk and Preventing Fraud in Your Organization

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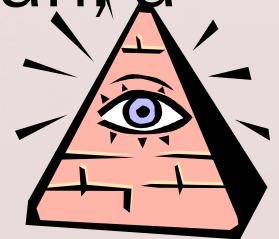
How Prevalent is White Collar Crime?

⌘ 2013 Integrity Survey by KPMG

- × 74% of employers reported instances of fraud
- × >56% of employees reported they knew of “serious misconduct that would result in a significant loss of public trust if discovered!”
- × Government was 2nd to the consumer markets industry in the prevalence of misconduct and 2rd in seriousness to the electronics, software industry
- × Types of government misconduct: misleading or false claims, improper political contributions, corruption and bribes

The Fraud Triangle or “How Trusted People Can Steal”

- ⌘ Pressure – a perceived “non-sharable” financial need (e.g., unable to pay one’s debt, unable to admit personal failures, business reversal, need to “keep up with the Jones” or be ousted from the group)
- ⌘ Opportunity – perceived ability to perpetuate fraud
- ⌘ Rationalization – why it is OK (e.g., underpaid/overworked, a temporary loan, a one-time incident)



Rationalization Expanded

- ⌘ Not ex post facto justification but rather a necessary component of the crime before it takes place
- ⌘ Common rationalization: “borrowing”
 - ⌘ At crossroad when in too deep, either:
 1. Come clean, make wild attempts to regain amounts, or even commit suicide; or,
 2. Go the full criminal route!

How Employers Are Unwitting Accomplishes

- ⌘ Placing too much **trust** in key employees
- ⌘ **Lax controls:**
 - × Lack of proper authorization procedures
 - × Lack of background checks
 - × Lack of segregation of duties
- ⌘ Organization structure and **supervision problems**
 - × Inattention to details
 - × Open access to assets and records
 - × Lack of clear lines of authority
 - × Lack of effective internal audit
- ⌘ Not paying attention to **red flags**

REPORT TO THE NATIONS

ON OCCUPATIONAL FRAUD AND ABUSE

2014 GLOBAL FRAUD STUDY

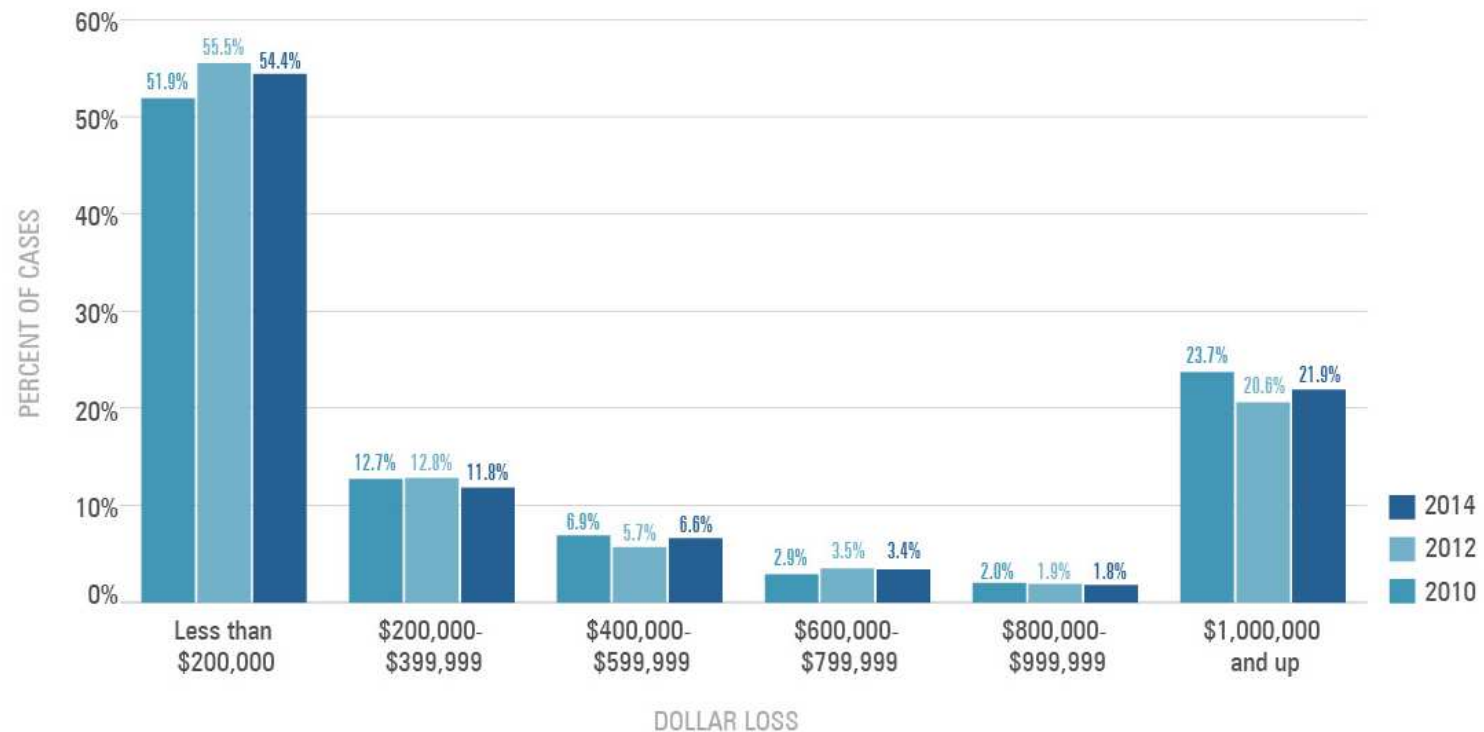


 **ACFE**
Association of Certified Fraud Examiners

*Together, Reducing
Fraud Worldwide*

The Cost of Occupational Fraud

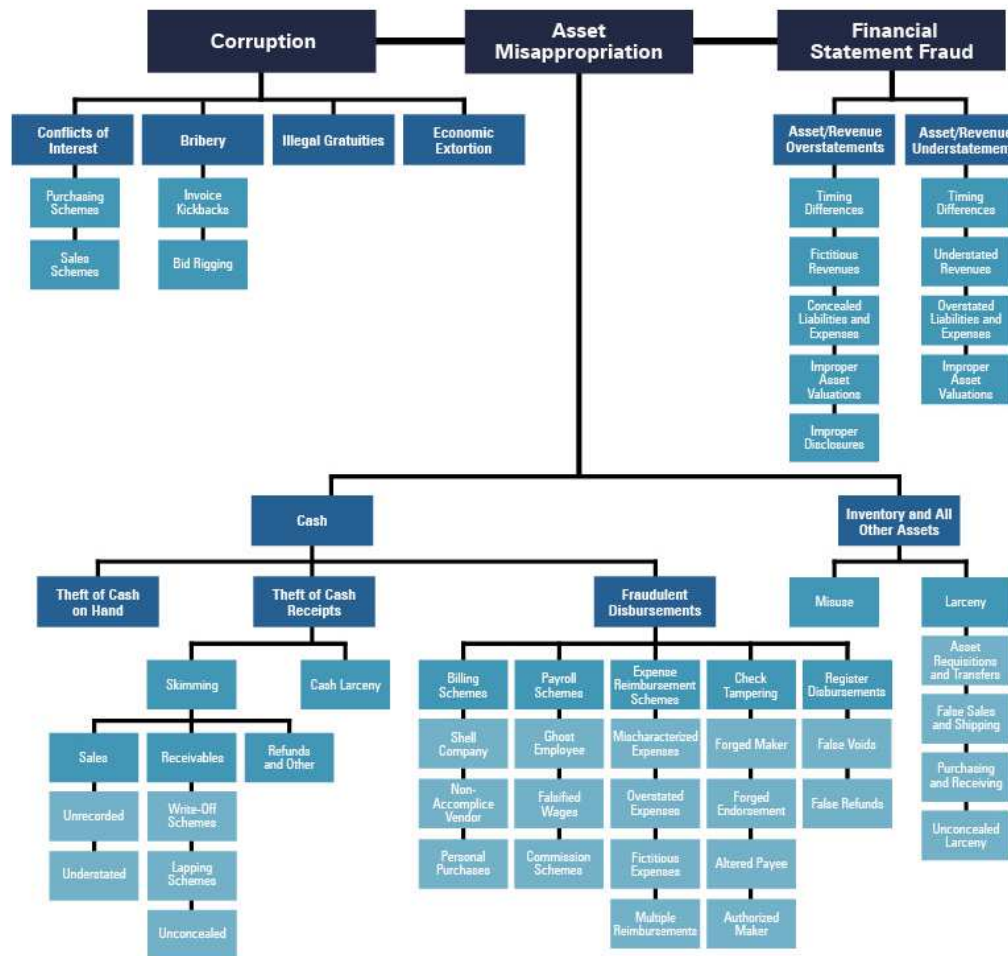
Figure 2: Distribution of Dollar Losses



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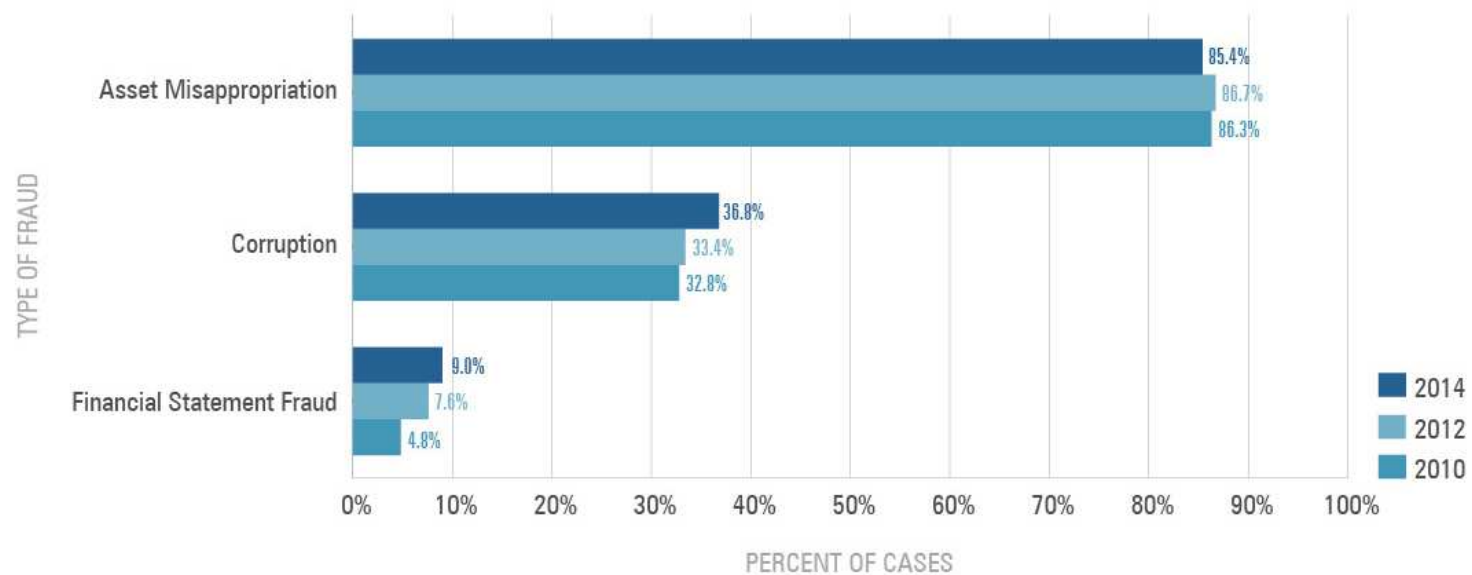
How Occupational Fraud is Committed

Figure 3: Occupational Fraud and Abuse Classification System (Fraud Tree)



How Occupational Fraud is Committed

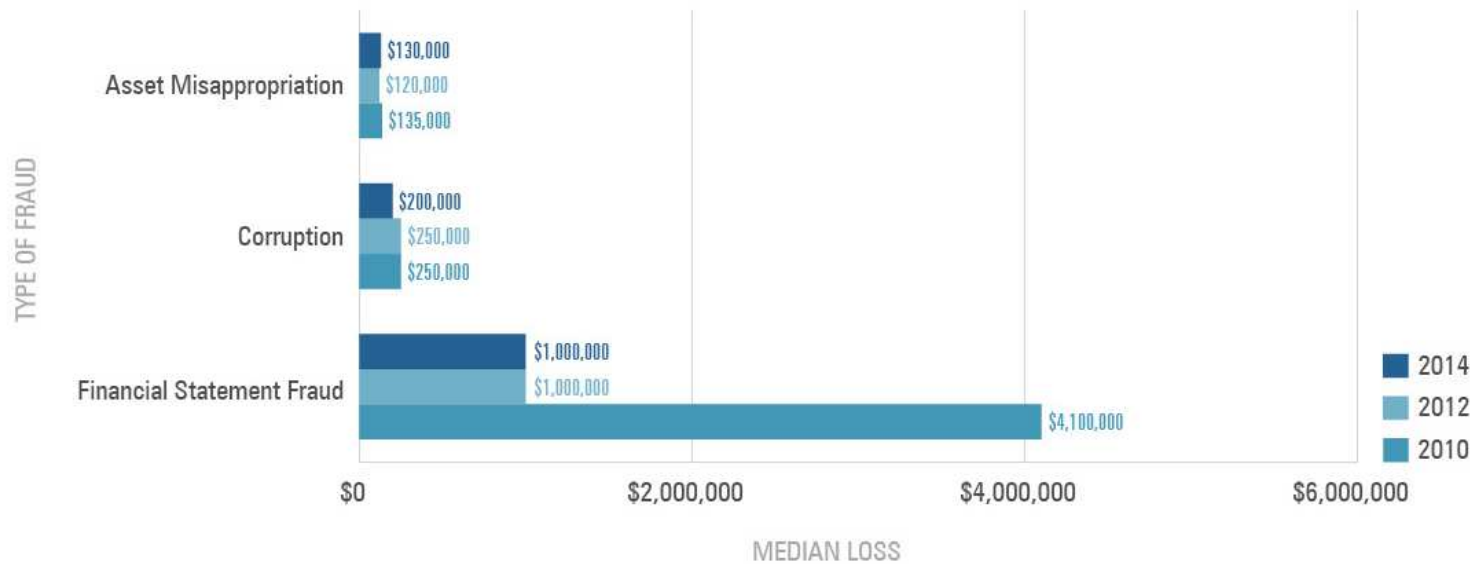
Figure 4: Occupational Frauds by Category — Frequency



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How Occupational Fraud is Committed

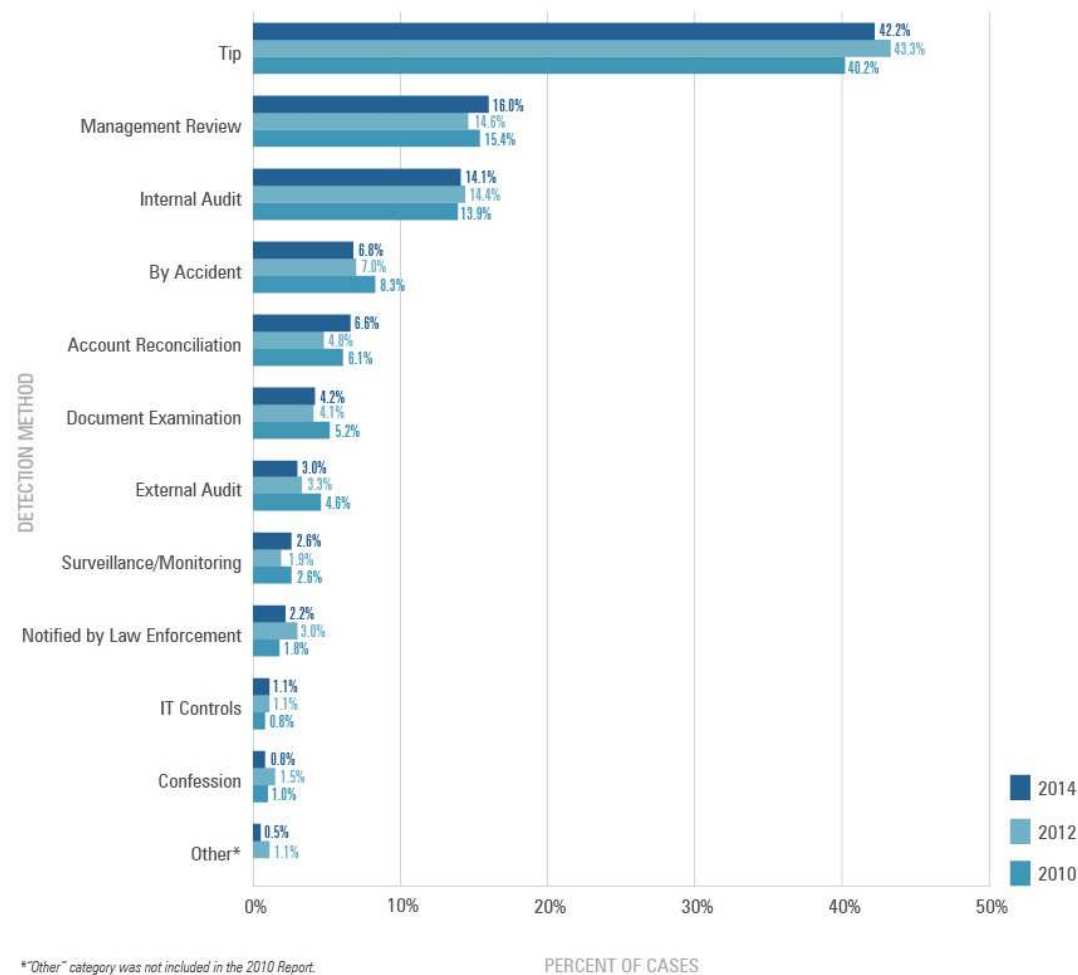
Figure 5: Occupational Frauds by Category — Median Loss



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Initial Detection of Occupational Frauds

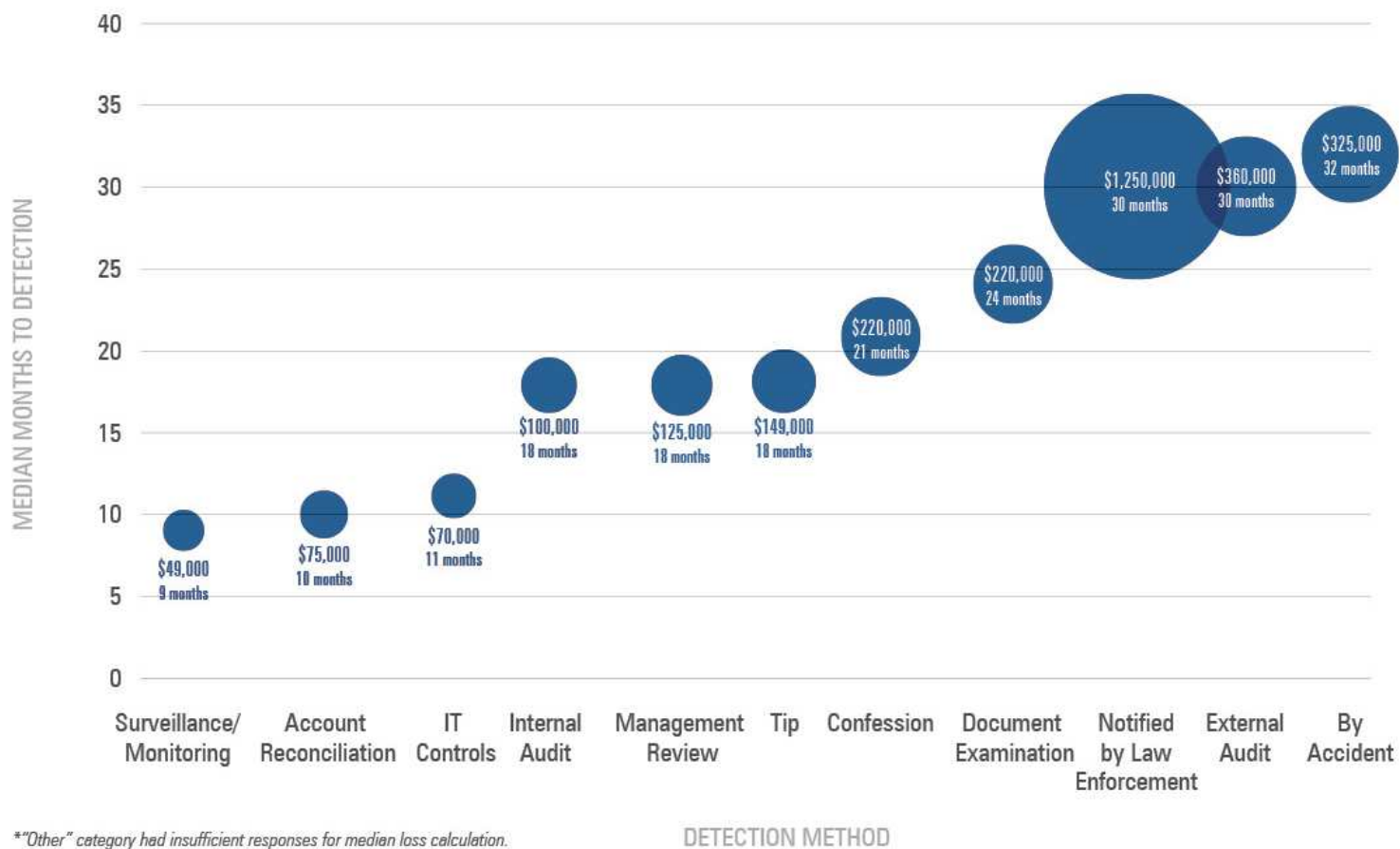
Figure 11: Initial Detection of Occupational Frauds



*"Other" category was not included in the 2010 Report.

Median Loss and Median Duration by Detection Method

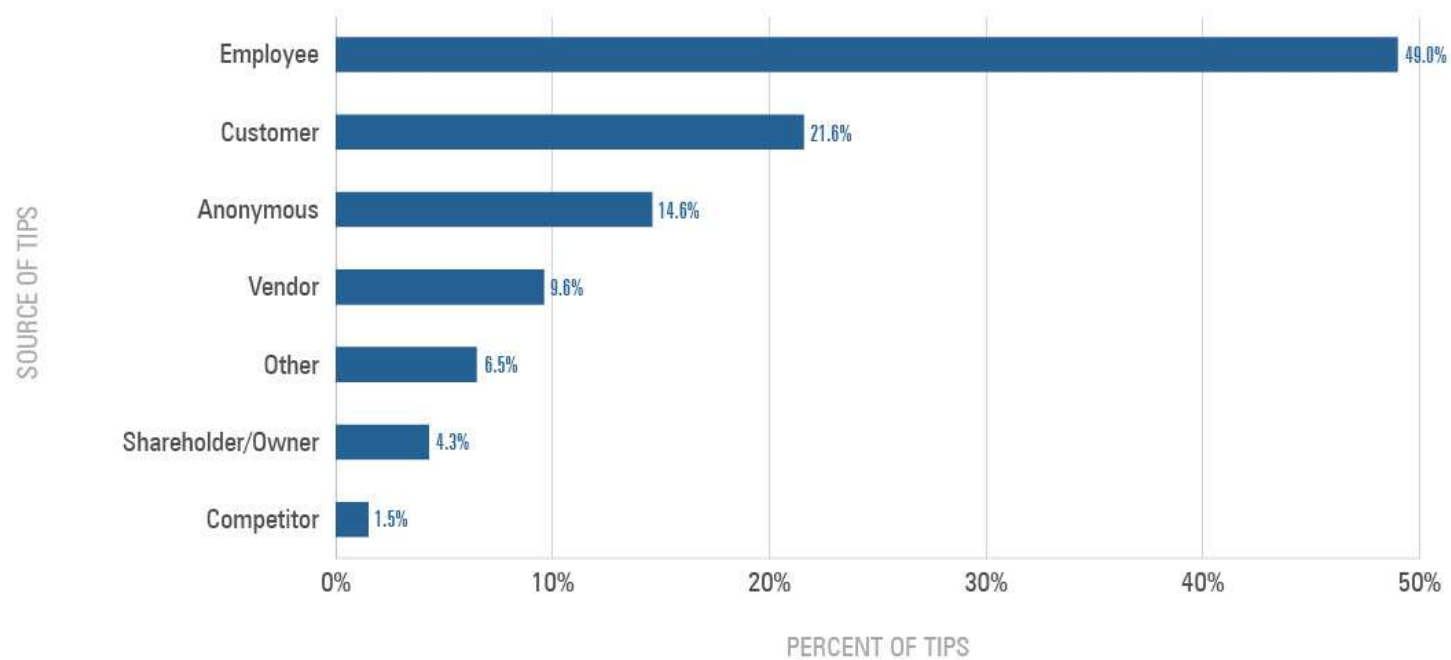
Figure 12: Median Loss and Median Duration by Detection Method



***"Other" category had insufficient responses for median loss calculation.*

Source of Tips

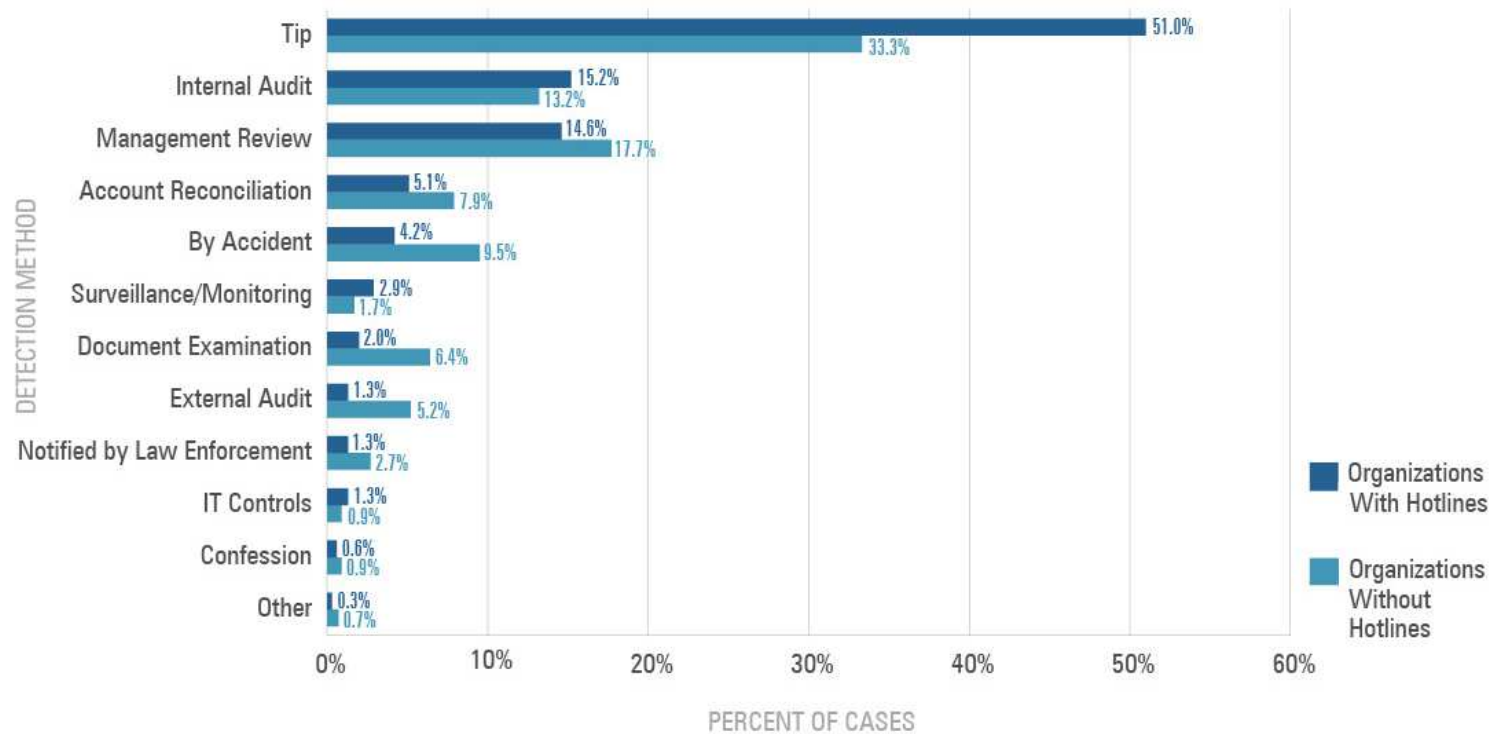
Figure 13: Source of Tips



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Impact of Hotlines

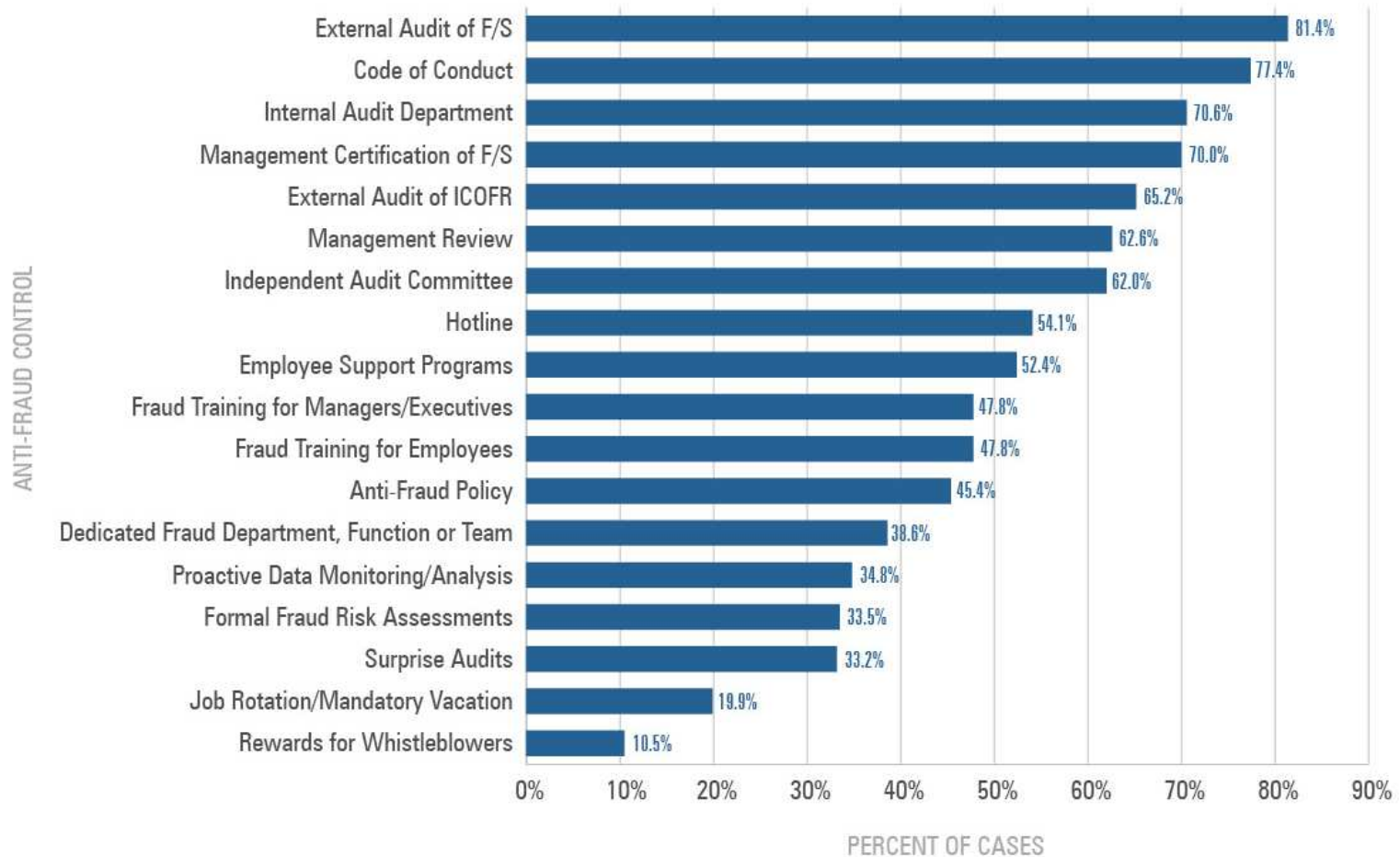
Figure 14: Impact of Hotlines



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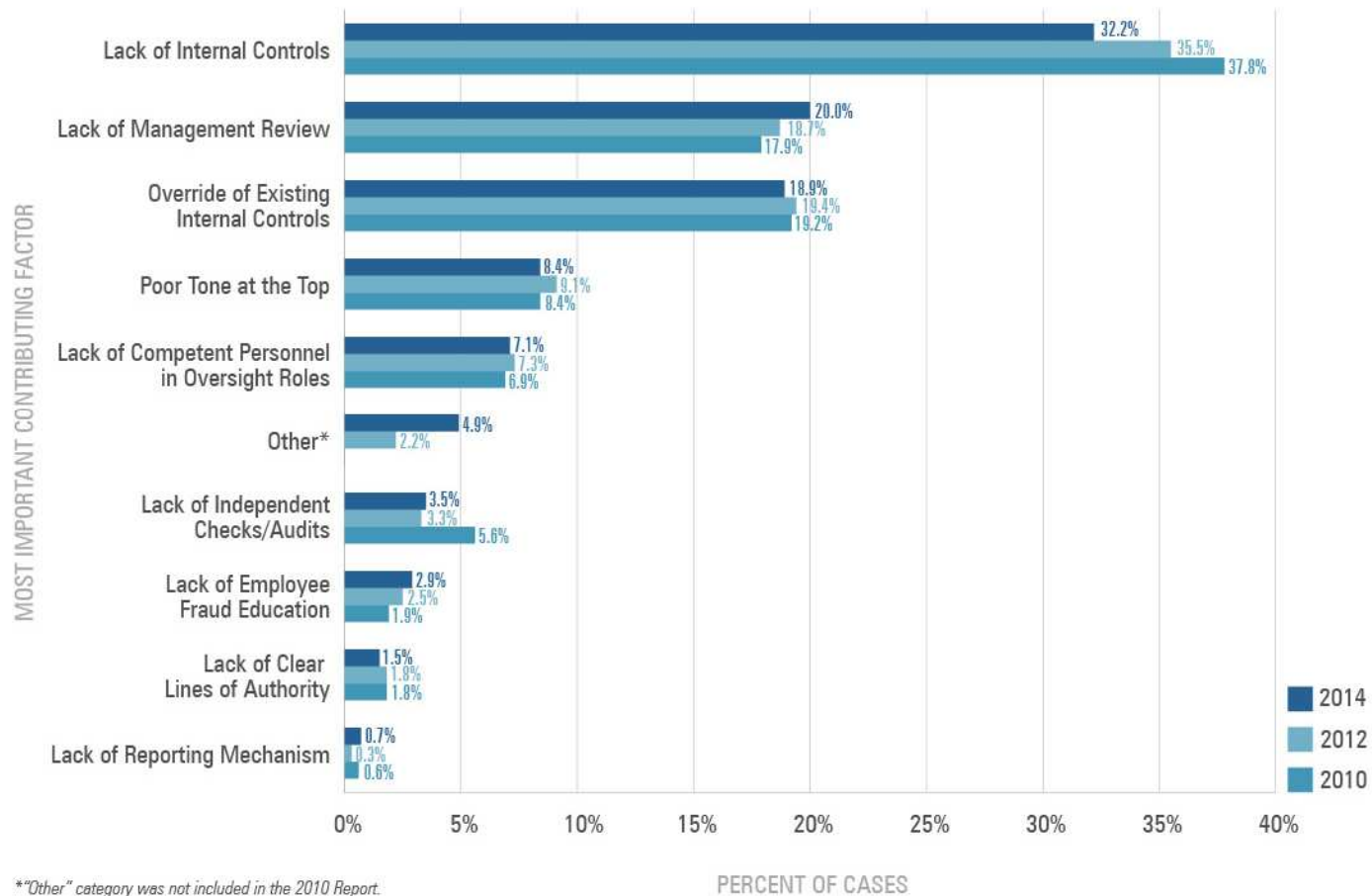
Anti-Fraud Controls at the Victim Organization

Figure 26: Frequency of Anti-Fraud Controls



Control Weaknesses That Contributed to Fraud

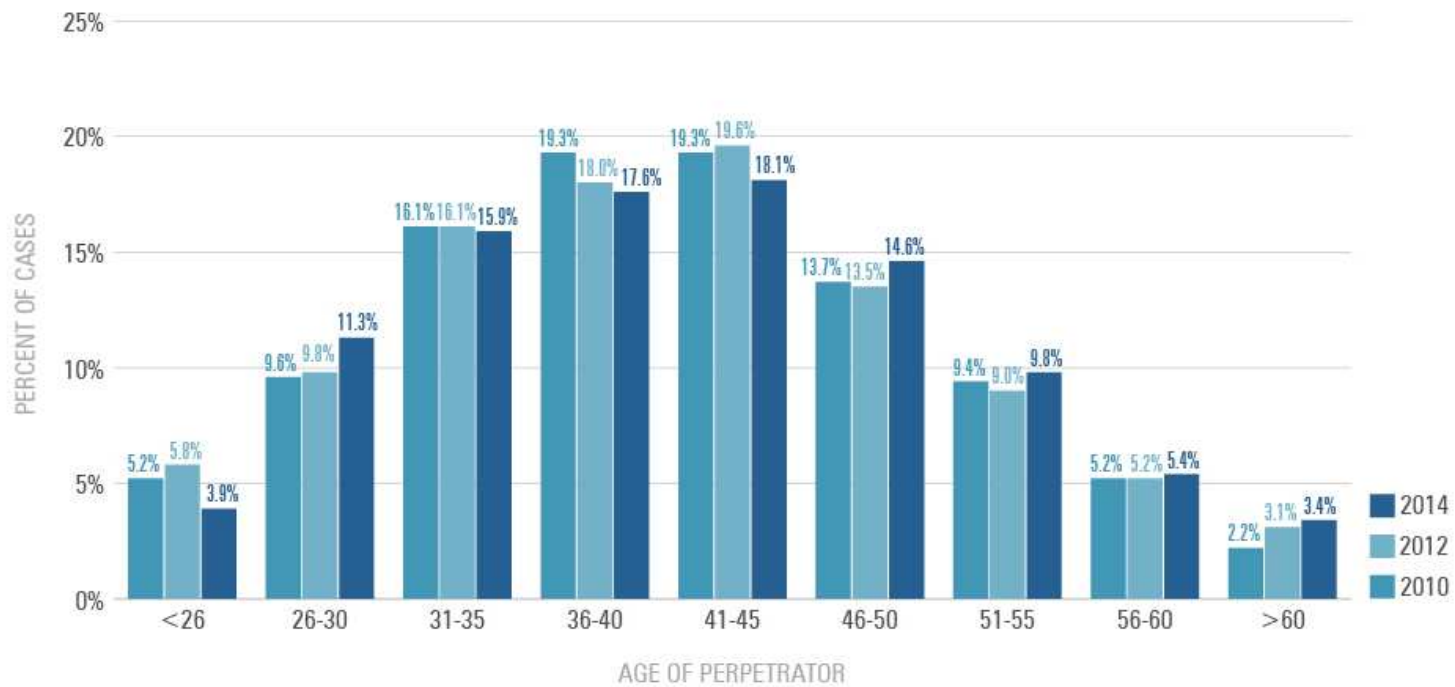
Figure 39: Primary Internal Control Weakness Observed by CFE



*"Other" category was not included in the 2010 Report.

Perpetrator's Age

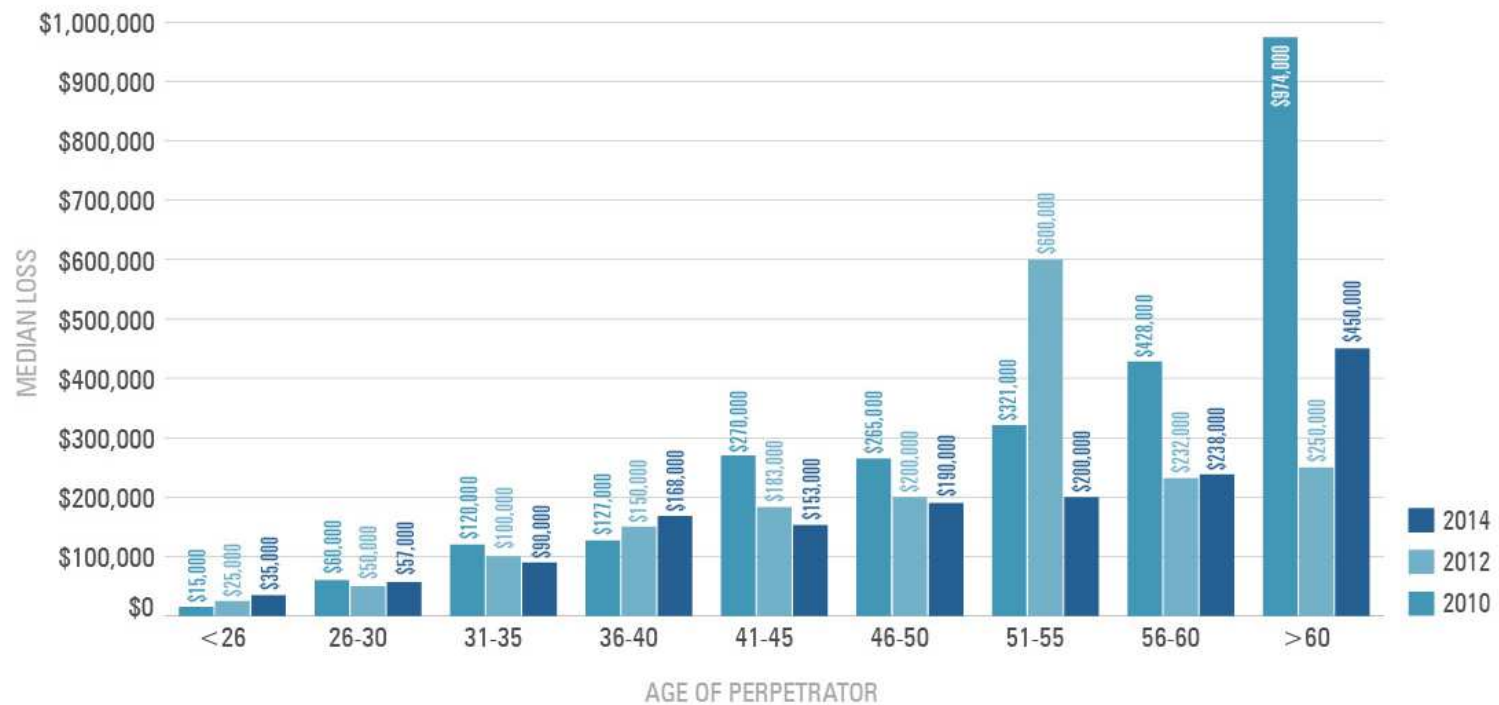
Figure 55: Age of Perpetrator — Frequency



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Perpetrator's Age

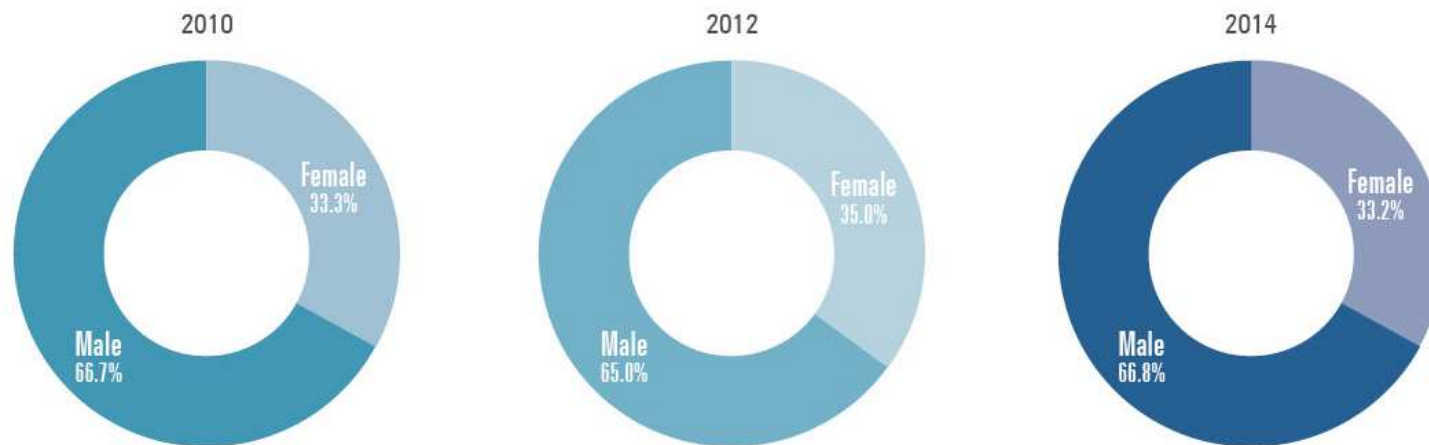
Figure 56: Age of Perpetrator — Median Loss



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Perpetrator's Gender

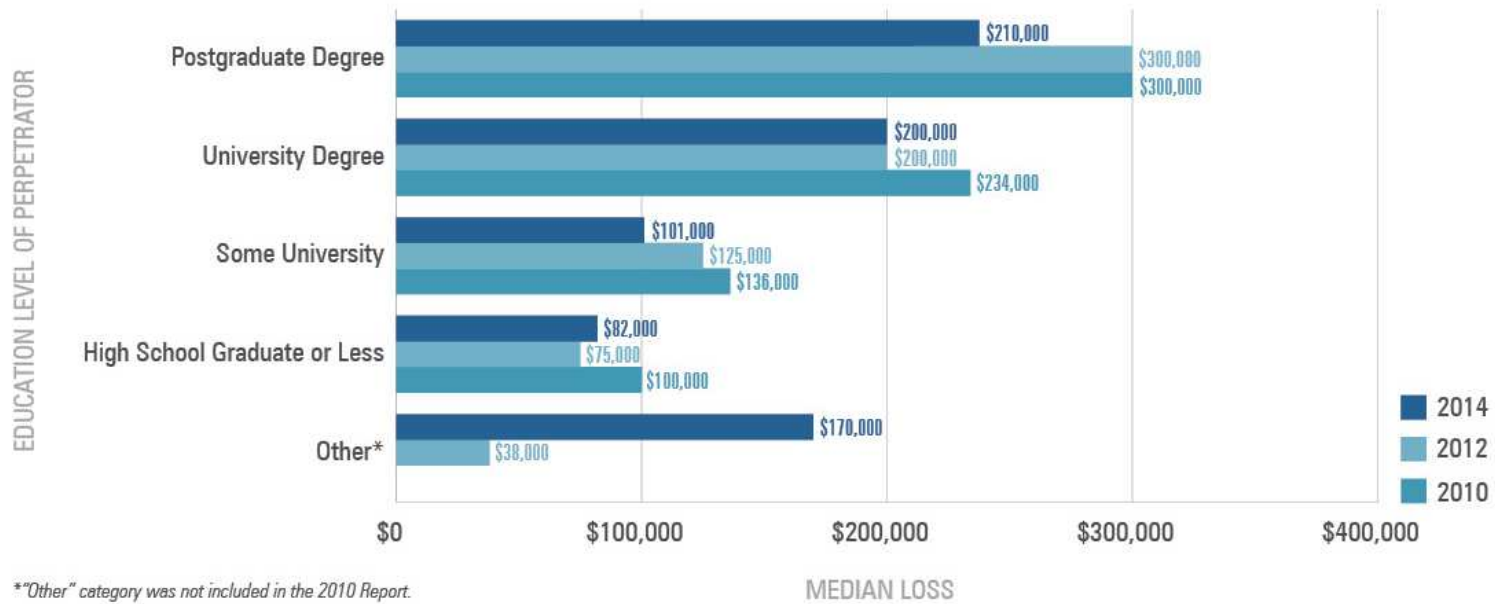
Figure 57: Gender of Perpetrator — Frequency



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Perpetrator's Education Level

Figure 65: Education Level of Perpetrator — Median Loss

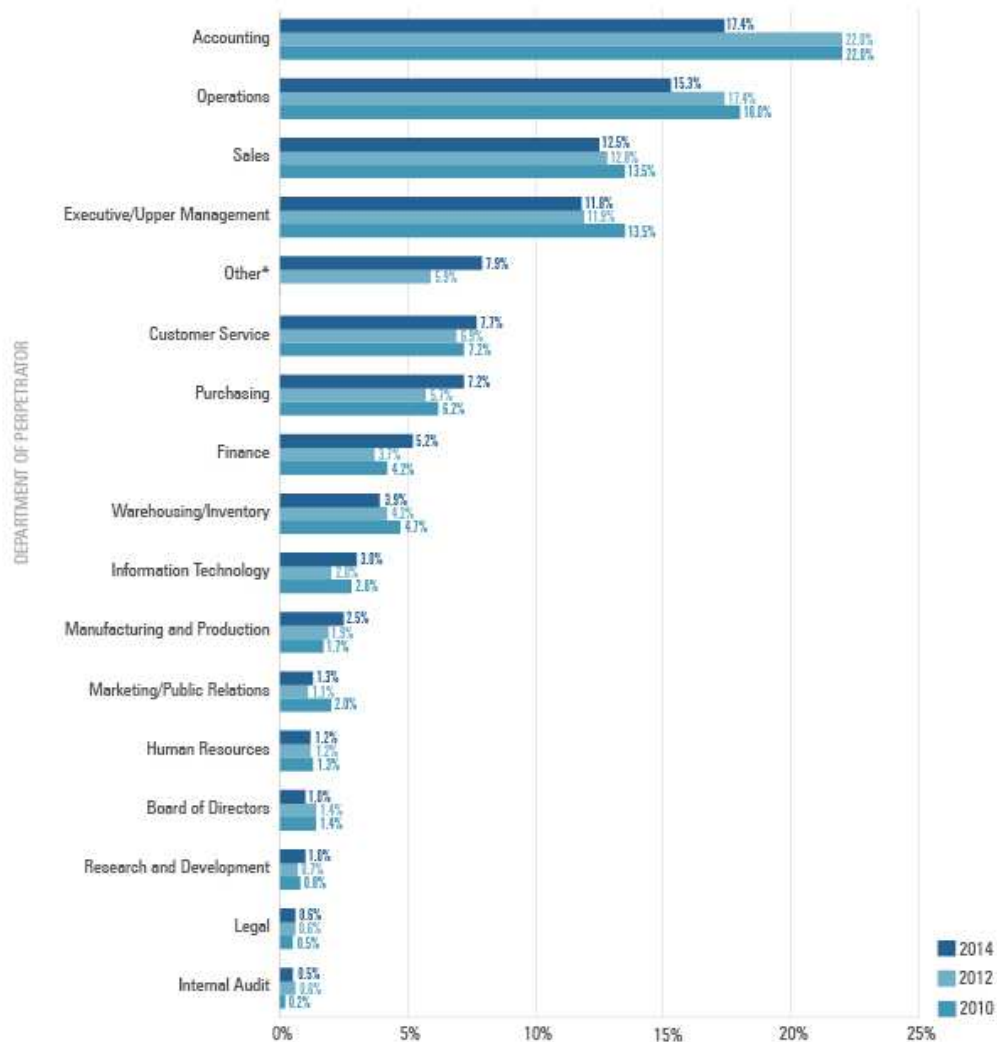


*"Other" category was not included in the 2010 Report.

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Perpetrator's Department

Figure 66: Department of Perpetrator — Frequency

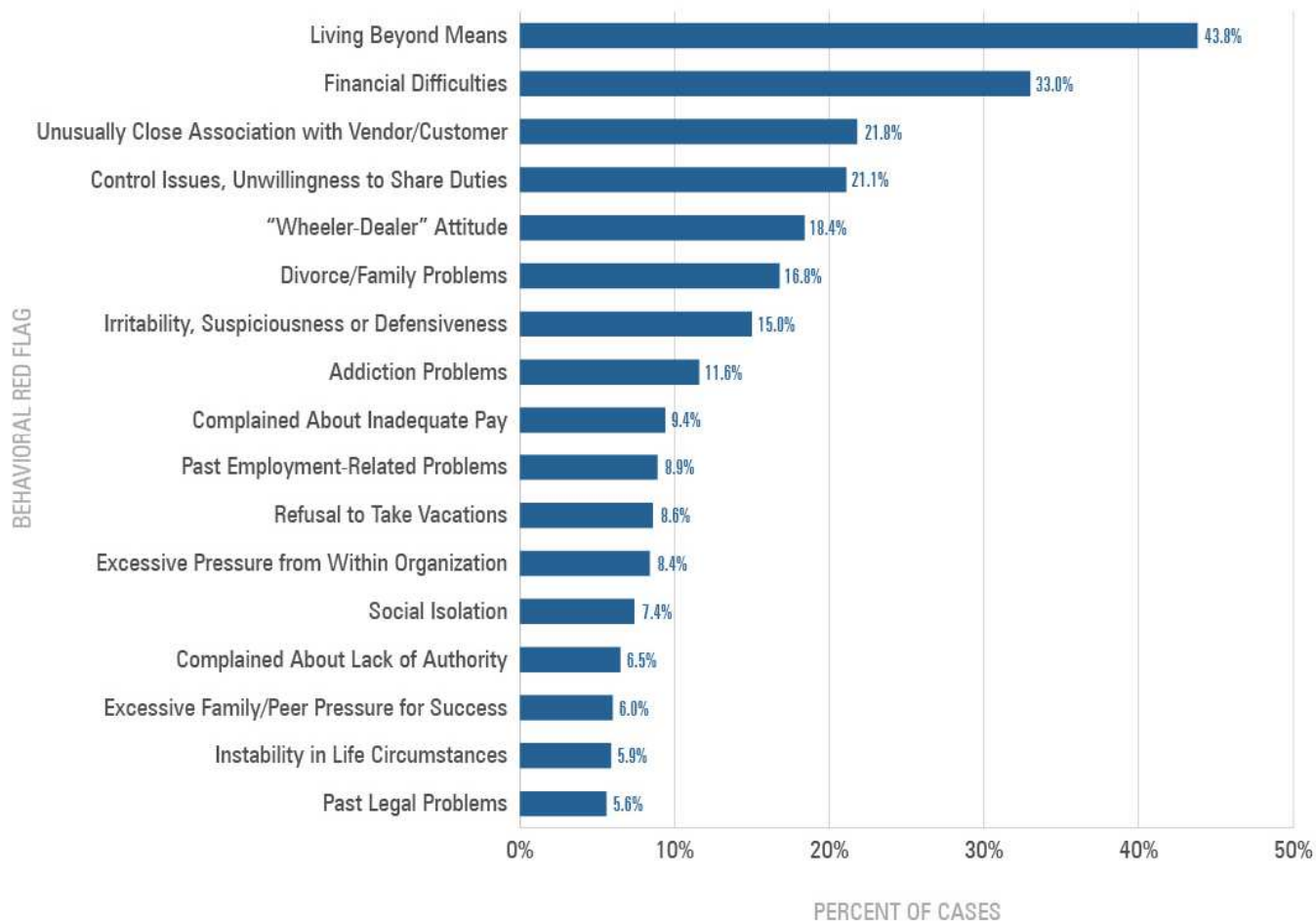


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PERCENT OF CASES

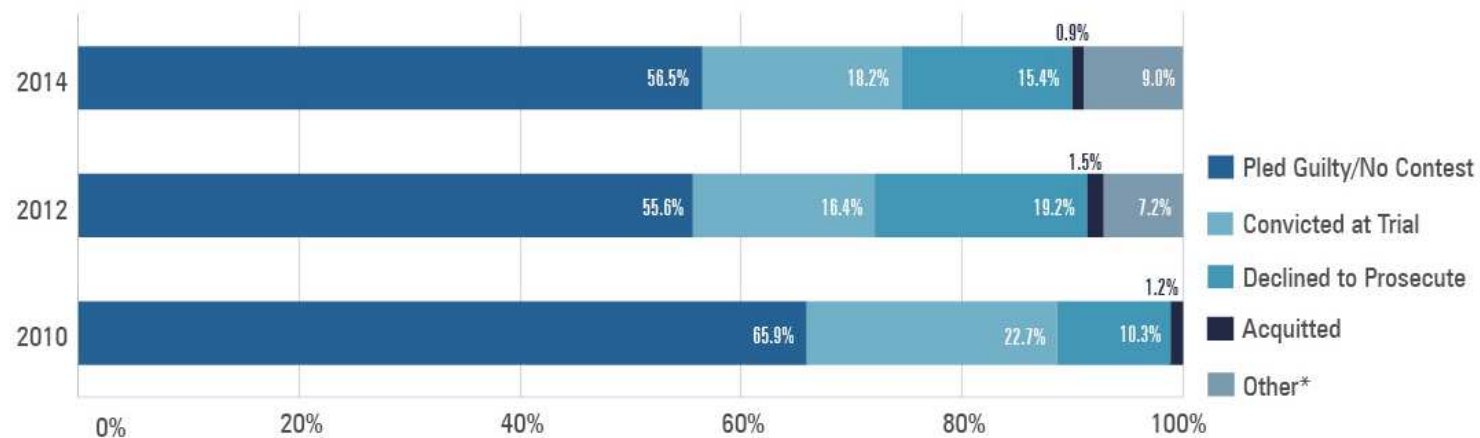
Behavioral Red Flags Displayed by Perpetrators

Figure 71: Behavioral Red Flags Displayed by Perpetrators



Criminal Prosecutions

Figure 78: Result of Cases Referred to Law Enforcement



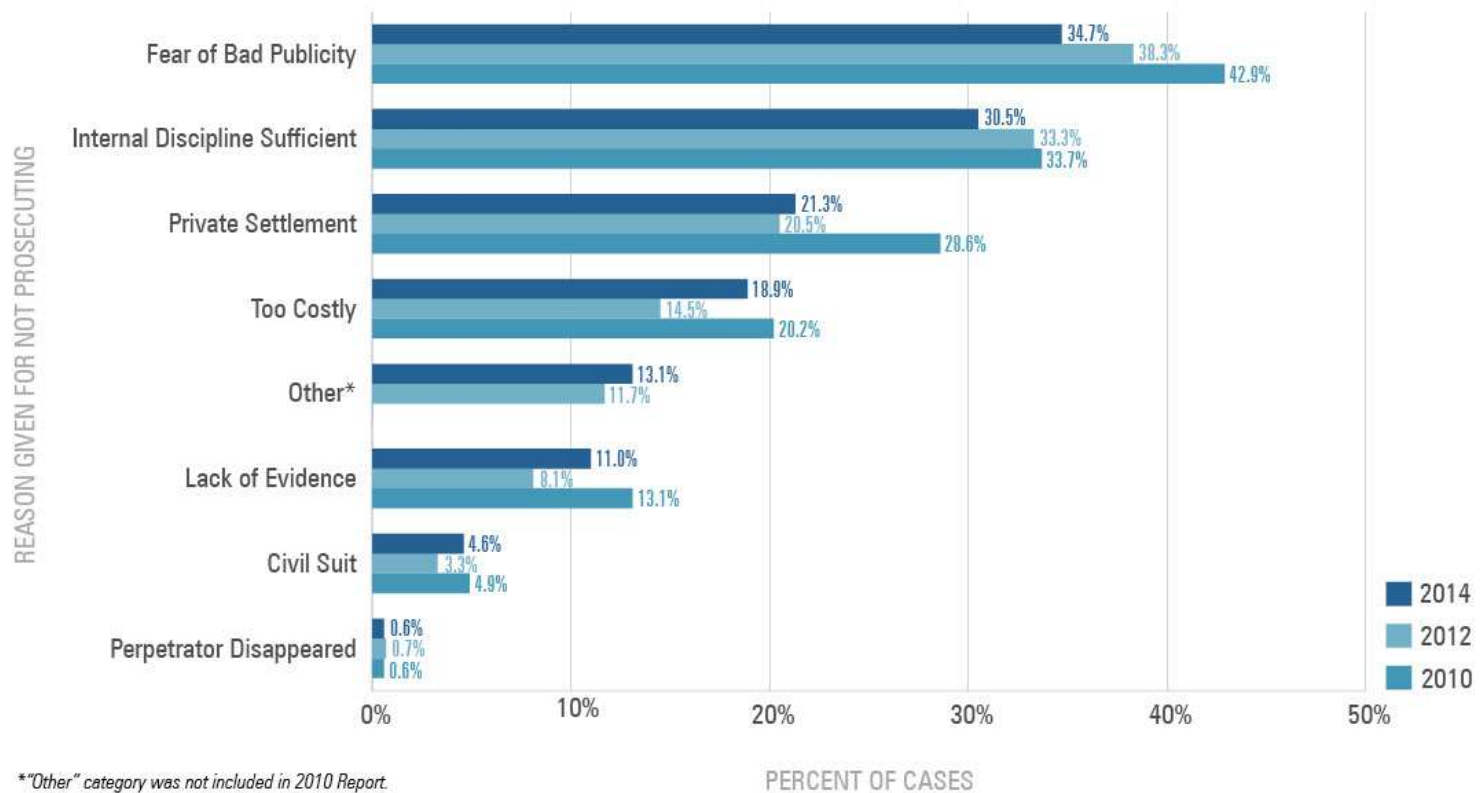
**"Other" category was not included in the 2010 Report.*

PERCENT OF CASES

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Criminal Prosecutions

Figure 79: Reason(s) Case Not Referred to Law Enforcement

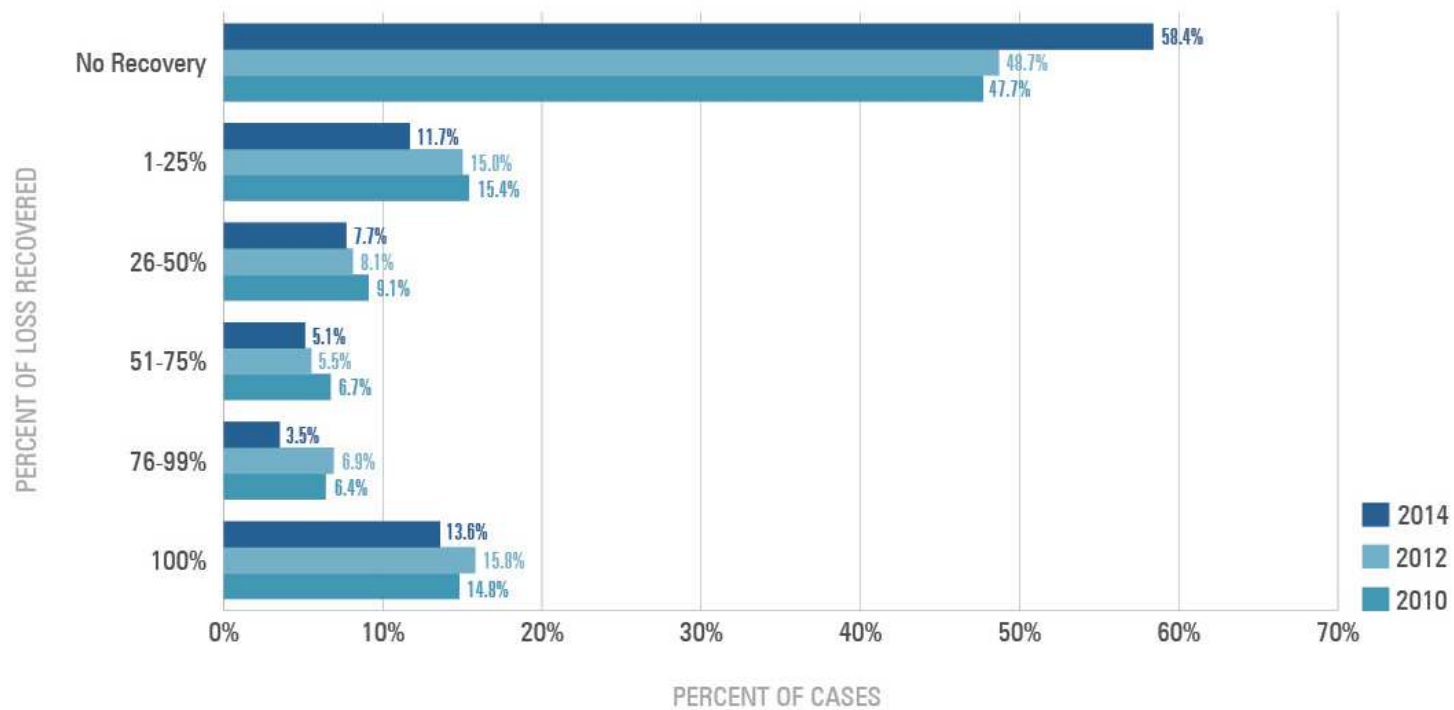


*"Other" category was not included in 2010 Report.

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Recovery of Losses

Figure 82: Recovery of Victim Organization's Losses



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Most Frequent Types of Fraud

- ⌘ Financial Statement Fraud
- ⌘ Payroll/Ghost Employees
- ⌘ Purchasing
- ⌘ Cash receipts/skimming
- ⌘ Programmatic activities
 - × Academic
 - × Athletic, etc.
- ⌘ Student Financial Aid

What Employers Can Do to Prevent Fraud

- ⌘ Set the proper tone at the top
- ⌘ Increase actual and perceived internal controls
 - ⌘ Higher risk of detection = less likely to attempt fraud
- ⌘ How employees perceive management is key, there is more theft when:
 - ⌘ Employees feel underappreciated
 - ⌘ Employers don't care about theft to take actions when it occurs
 - ⌘ Employees abuse other company policies
- ⌘ Address the suspected fraud promptly

Fraud is Suspected – What Next?

- ⌘ Safeguard records
 - ✖ Chain of custody is key!!!
- ⌘ Establish a chronology of events
- ⌘ Identify witnesses
- ⌘ Hire fraud auditor or conduct internal investigation if you have the expertise and resources (or some combination)
- ⌘ Work with legal, police and human resources
- ⌘ Covert investigations, such as surveillance and use of informants is best left to the experts!
 - ✖ Can use surveillance camera if in a public place where there is no expectation of privacy
- ⌘ Data analysis, specialized software helps to sort and discover data relationships (matches, duplicates, unexpected correlations)

Preserving the Evidence

- ⌘ “Documents do not make the cases, witnesses make cases. The documents make or break the witness.” *2011 Fraud Examiners Manual*
 - ⌘ Keep all documents as you don't know what might become relevant and material to the case
- ⌘ Chain of custody is key (what received, by whom, source and where maintained) – turn over key documents to the experts
- ⌘ Keep originals safe, seal, date and initial
 - ⌘ Don't handle originals, make working copies
- ⌘ Preserve equipment

Types of Evidence

- ⌘ Direct – i.e., a check from a vendor to the purchasing agent that shows a kickback
- ⌘ Circumstantial – i.e., cash deposits made to the purchasing agents account around the time the vendor received the contract award
- ⌘ Look out for phony documents, may need to bring in experts
 - × Forgery – different types of handwriting
 - × Alteration, erasures
 - × Determining when prepared, if from same pad of paper
 - × Looking for faint indented writing, inserted type
 - × Identification of photocopy, mechanical impressions and printer inks
 - × Counterfeiting – is too easy today with scanners, printers and computer software!
- ⌘ May need to hire fingerprint and handwriting experts

Who Can Conduct an Interview?

- ⌘ Anyone, but don't hold yourself out as an investigator if you are not and don't infringe upon their rights
 - × False imprisonment – don't lock the door!
 - × Recording interviews – check with legal first!
- ⌘ Tips when conducting interviews
 - × One interviewee at a time!
 - × Shake hands, don't invade their space
 - × Try to make them feel good
 - × Assure confidentiality
 - × People like recognition, sympathy, catharsis
 - × Use non-emotional words (“paperwork problem” versus embezzlement!)
 - × Guard your own responses (i.e., don't be too cagey, don't boast about what you know)
 - × Be careful when taking notes

Body Language Can Show Potential Guilt

- ⌘ Backing away indicates unpleasantness/sensitivity
- ⌘ Avoidance of eyes indicates shame or confusion
- ⌘ Breathing unnatural, excessive perspiration
- ⌘ Touches their face
- ⌘ Covers their mouth when speaking
- ⌘ Blushing (increased blood pressure)
- ⌘ Playing with objects
- ⌘ Crossing arms or feet
- ⌘ Sitting is a fleeing position

Are they lying? You be the judge...

- ⌘ Change in speech – vocal cords constrict when tense
- ⌘ Repeating the question to gain time
- ⌘ Complains about the physical environment or length of interview
- ⌘ Selective memory
- ⌘ Emphasis on certain words, take oaths
- ⌘ Answers a question with a question
- ⌘ Overly respectful
- ⌘ Denials become weaker instead of stronger
- ⌘ Fails to deny event (qualified with to the best of my knowledge...)
- ⌘ Won't use words like steal, lie and crime
- ⌘ Tolerates and justifies bad behavior
- ⌘ Reluctant to terminate interview
- ⌘ Will feign unconcern

Admission-Seeking

- ⌘ Direct the accusation
- ⌘ Allow them to rationalize the crime
- ⌘ To diffuse alibis
 - × Display physical evidence
 - × Discuss witness (without identification)
- ⌘ Ask them to choose between a positive and negative admission
 - × Did you get greedy or did you have financial problem?
- ⌘ Purpose to get a confession, once they confess get as much information as you can, write it down and have them sign

4th Amendment Protections

- ⌘ Protects against unreasonable searches and seizures
- ⌘ In general, work computers, files and cabinets are not considered private and not protected
- ⌘ Do not inspect individual's personal belongings – leave that to law enforcement

Now What?

- ⌘ Employment action
- ⌘ Legal –
 - ⌘ Civil – recovery of loss
 - ⌘ Criminal – formal charges
- ⌘ Appropriate communication to the community

What the Experts Recommend...

⌘ Law Enforcement –

- × Consider involving an outside agency in assisting with the investigation
 - ☆ Reduces potential for bias

⌘ District Attorney –

- × Chain of custody of evidence is key
- × Thoroughness of documentation obtained and retained

What We Recommend...

- ⌘ Take action.
- ⌘ Failure to act assures you will have similar activity in the future, if not currently happening!

The background is a solid red color with embossed knot patterns. In the top-left corner, there is a circular knot pattern. In the top-right corner, there is a rectangular knot pattern. In the bottom-left corner, there is another rectangular knot pattern. In the bottom-right corner, there is a large, detailed knot pattern, possibly a reef knot (square knot).

**THANK YOU FOR
ATTENDING!**

Questions?