

***Fraud: It Isn't Who You Think It Is...
and It Isn't What You Think They're Doing***

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Presented by
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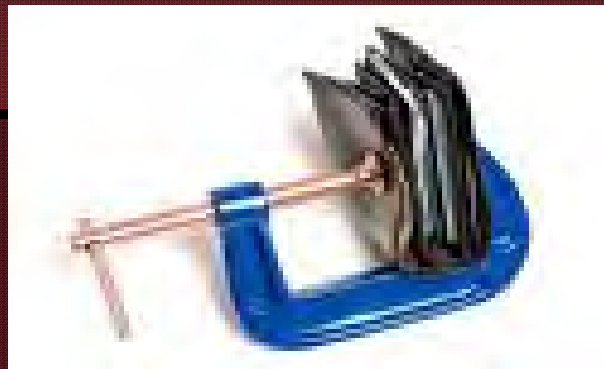
Why Does Fraud Happen... So Much



Why Does Fraud Happen... So Much

Evil has not taken over our society...

FINANCIAL PRESSURE HAS!!!



FRAUD DISCOVERIES

An employee responsible for planning and reserving meeting rooms at local hotels for company meetings was able to embezzle more than \$190,000 from her company by utilizing the following method:

She would obtain a price quote (i.e. \$8,000) from a local hotel for an upcoming meeting claiming an anticipated attendance of approximately 200 people. The employee would then submit the faxed quote with her expense report, claiming that she had charged the \$8,000 on her personal credit card, and be reimbursed the cost. After the actual meeting took place, with only 100 participants, the actual, much lower bill (i.e. \$4,500) would arrive. She would then pay the bill with her personal credit card. The net personal profit from this one transaction amounted to \$3,500.

FRAUD DISCOVERIES

An employee embezzled funds from her company by increasing the tip amount on the customer's copy of restaurant credit card receipts by approximately \$2 to \$3 per meal. The actual restaurant copy of the receipt represented the actual lesser amount charged to the credit card. The employee would then attach the customer copy of the receipt to her expense report for reimbursement of charges to her personal credit card.

Overview

Understanding the Fraud Triangle

Types of Fraud

Fraud Trends

2012 ACFE Report to the Nations

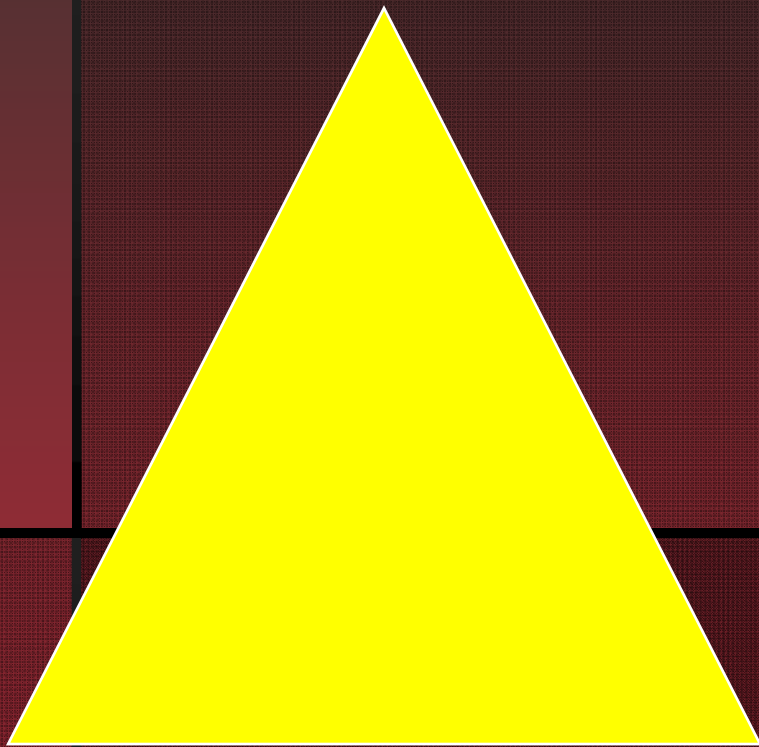
So What Can We Do About It?

How it is Happening

Awareness / Prevention Issues

THE FRAUD TRIANGLE

JOSEPH T. WELLS; *OCCUPATIONAL FRAUD AND ABUSE*; (OBSIDIAN PUBLISHING CO. - 1997); PG. 11



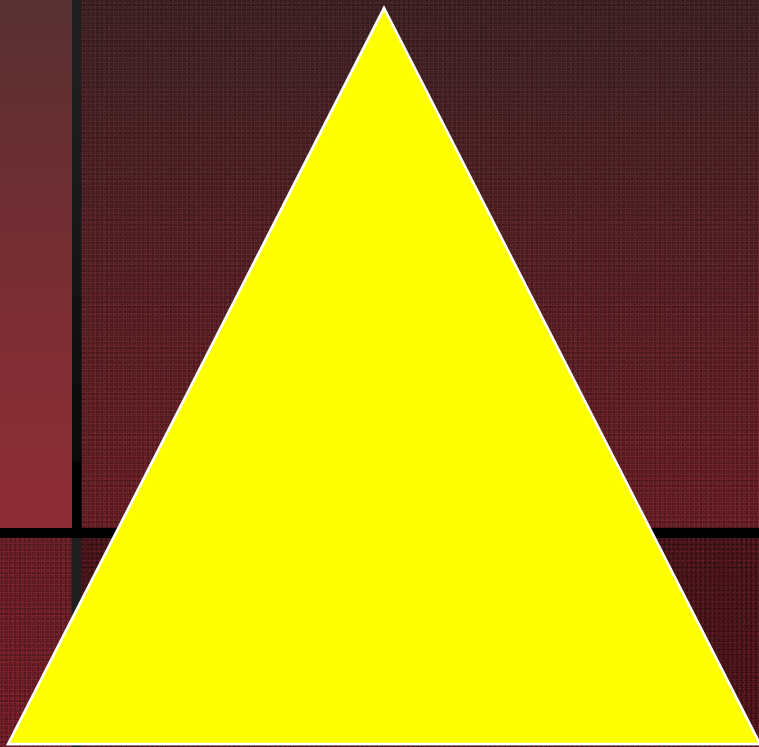
- **Perceived Non-shareable Financial Need (Incentive/Pressure)**
- **Rationalization**
- **Opportunity**

Incentive / Pressure

- A gambling or drug habit
- Personal debt or poor credit
- A significant financial loss or need
- Peer or family pressure to succeed

THE FRAUD TRIANGLE

JOSEPH T. WELLS; *OCCUPATIONAL FRAUD AND ABUSE*; (OBSIDIAN PUBLISHING CO. - 1997); PG. 11



- Rationalization

Rationalization:

“I’m not a bad person... really!”

“I was just borrowing the money... I was going to pay it back”

“The company won’t even realize its gone; its not that much”

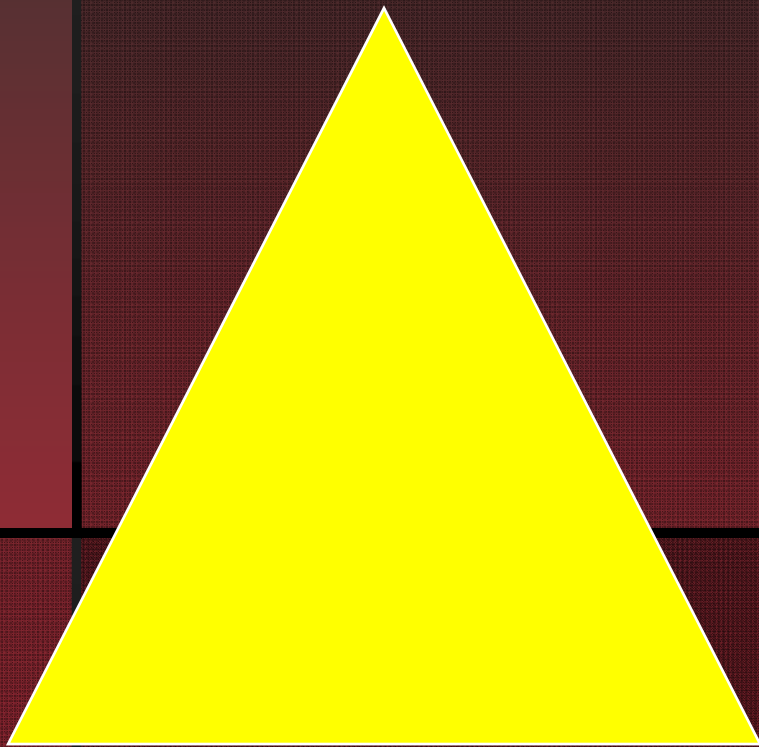
“I’ve been here 20 years; the company owes me”

“I deserve this after the way I’ve been treated”

“My boss does it all the time”

THE FRAUD TRIANGLE

JOSEPH T. WELLS; *OCCUPATIONAL FRAUD AND ABUSE*; (OBSIDIAN PUBLISHING CO. - 1997); PG. 11



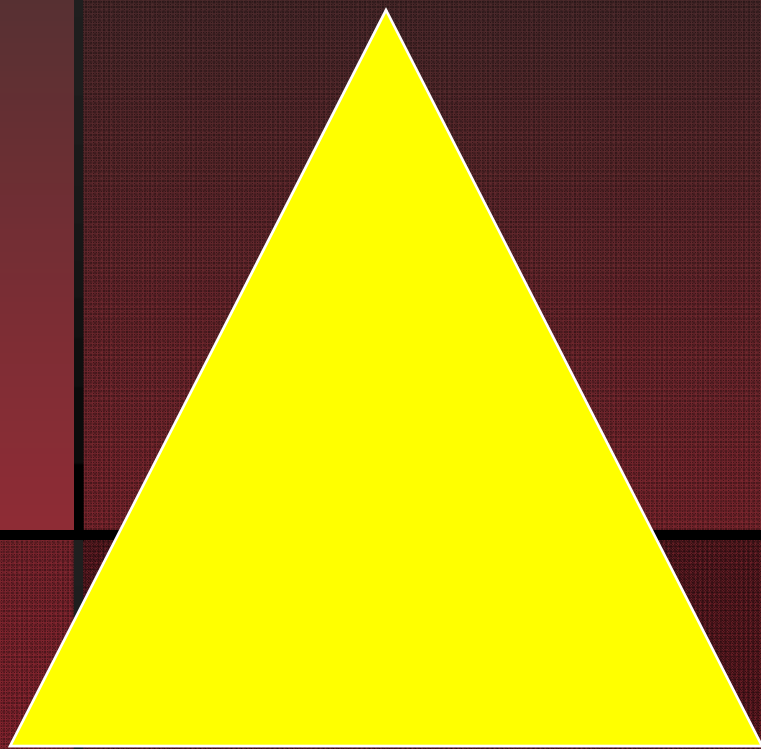
■ **Opportunity**

Opportunity

- **Poor Internal Controls**
- **Lack of Supervision**
- **Poor Accounting Records**
- **Extreme Trust in a Single Individual**
- **Lack of Disciplinary Action for Previous Frauds**

THE FRAUD TRIANGLE

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- **Perceived Non-shareable Financial Need (Incentive/Pressure)**
- **Rationalization**
- **Opportunity**

Types of Fraud

“Fraud and Stupid Look Exactly Alike”

Intent turns Stupid into Fraud

Misappropriation

Taking of company assets...

“I’ll just borrow this for a little while”



Corruption

“You scratch my back, I’ll scratch yours?”



BRIBERY – To Influence

KICKBACKS

BID-RIGGING

**ILLEGAL GRATUITIES –
For or Because of**

Fraudulent Statements

“Let’s make this number this and that number that... it will look better”



REPORT TO THE NATIONS

ON OCCUPATIONAL FRAUD AND ABUSE

2012 GLOBAL FRAUD STUDY



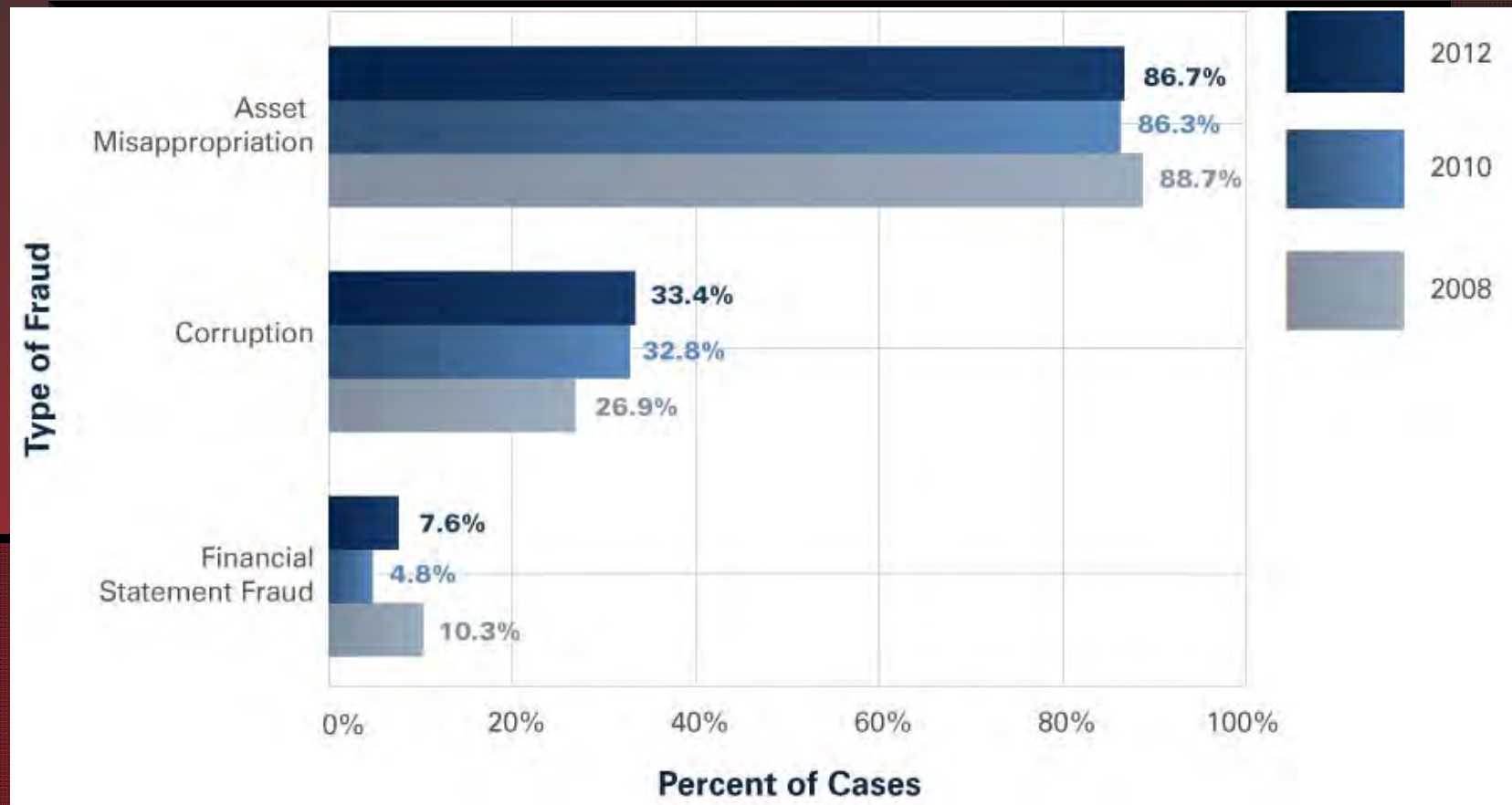
ACFE

Association of Certified Fraud Examiners

*Together, Reducing
Fraud Worldwide*

How Occupational Fraud is Committed

Occupational Frauds by Category — Frequency



Asset Misappropriation Schemes

2012 ACFE Report to the Nations on Occupational Fraud and Abuse

Cash and Disbursement Schemes

Billing -	24.9%
Expense Reimbursements -	14.5%
Skimming Cash -	14.6%
Check Tampering -	11.9%
Cash Larceny -	11.0%
Payroll -	9.3%

Asset Misappropriation Schemes

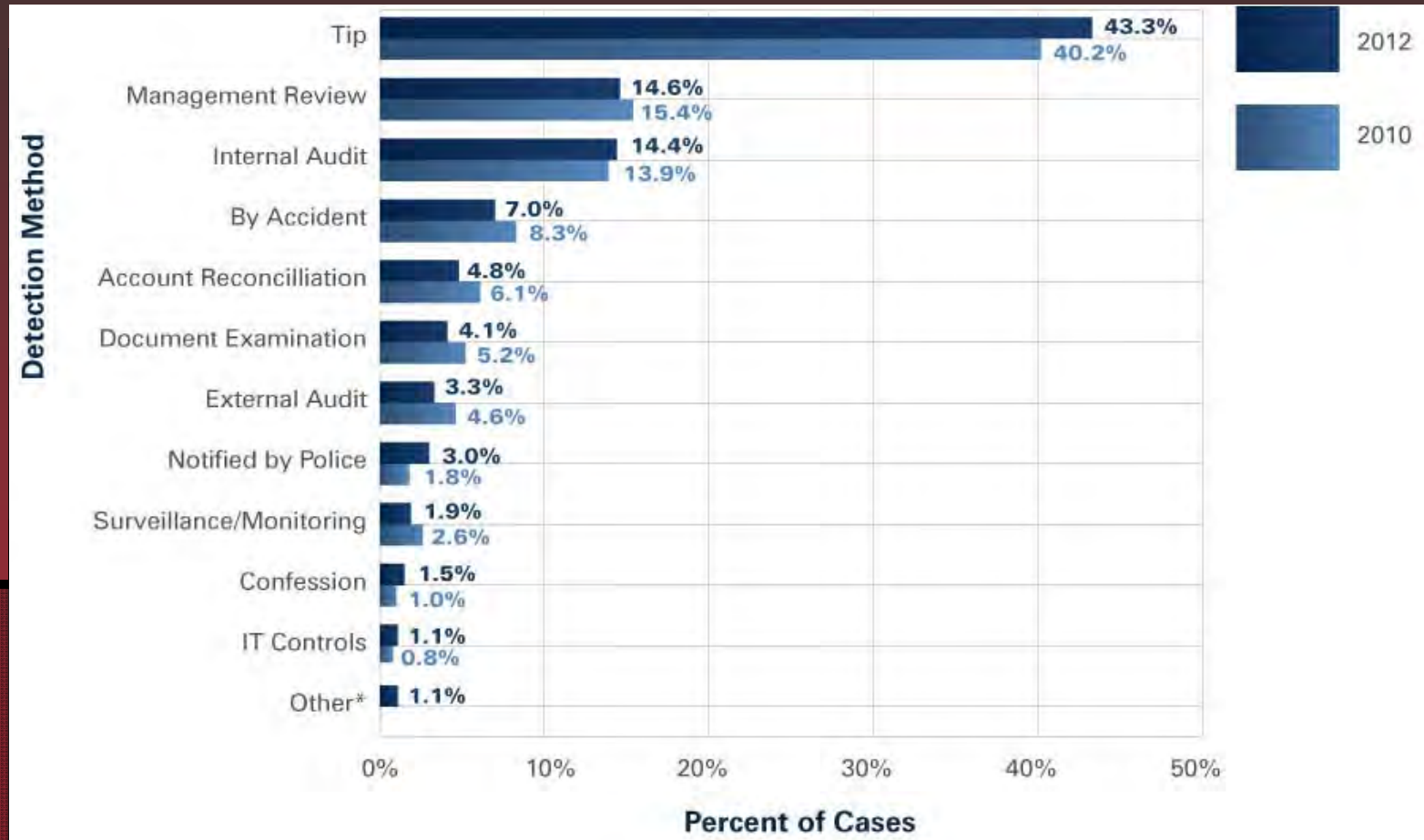
2012 ACFE Report to the Nations on Occupational Fraud and Abuse

Non-Cash Schemes

Theft of Inventory/ Theft or Misuse of Confidential Information -	17.2%
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Detection of Fraud Schemes

Initial Detection of Occupational Frauds



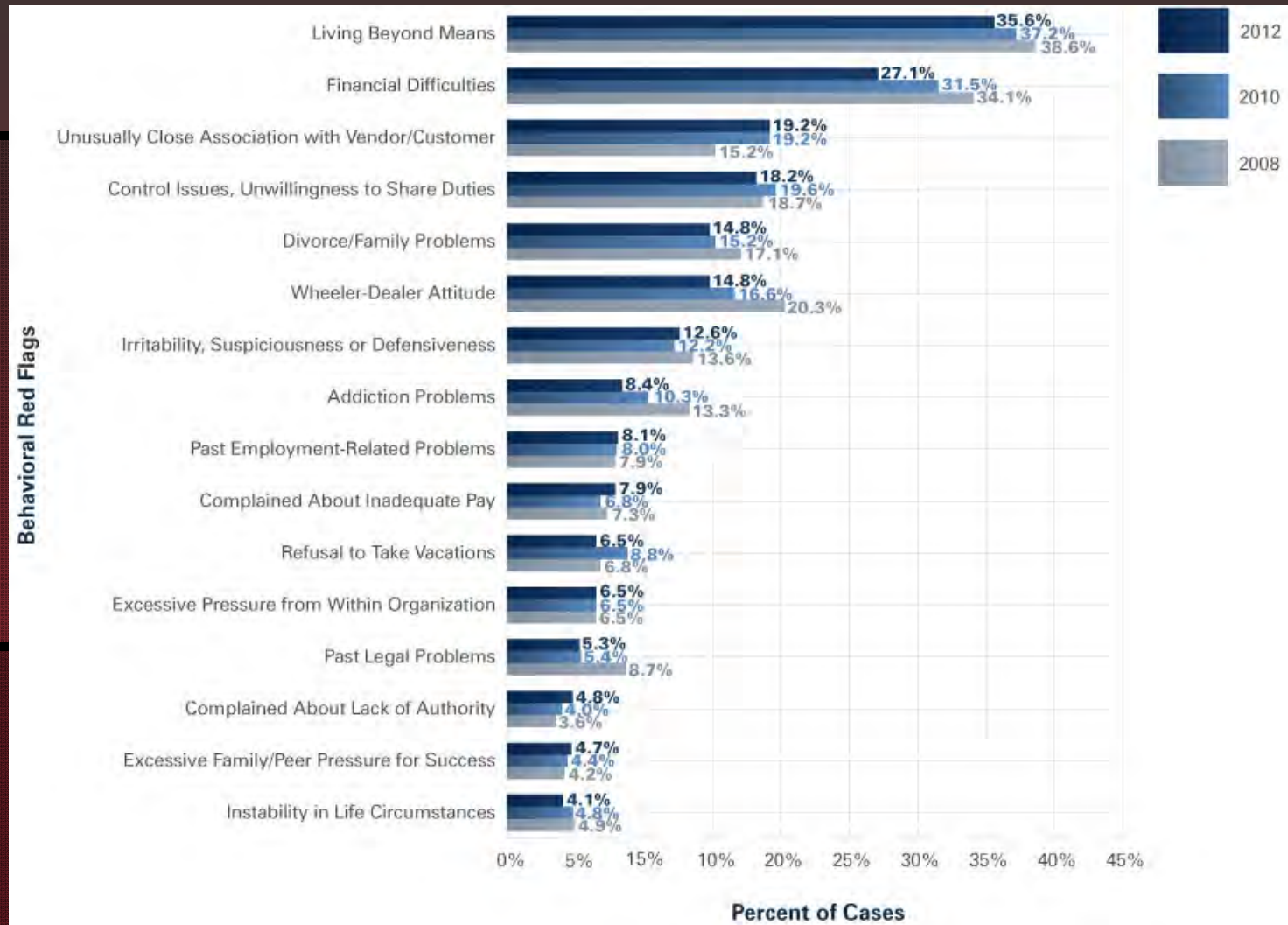
Victim Organizations

Frequency of Anti-Fraud Controls



Perpetrators

Behavioral Red Flags of Perpetrators



What Do We Habitually Cover Regarding Internal Controls?

Dual Signatures on Checks over \$500...

Reconcile the bank account monthly by someone who doesn't sign checks...

Lock the warehouse...

*...But What Should We Be Covering
Regarding Internal Controls?*

It is a different world out there now!



It is a Different World Out There Now!

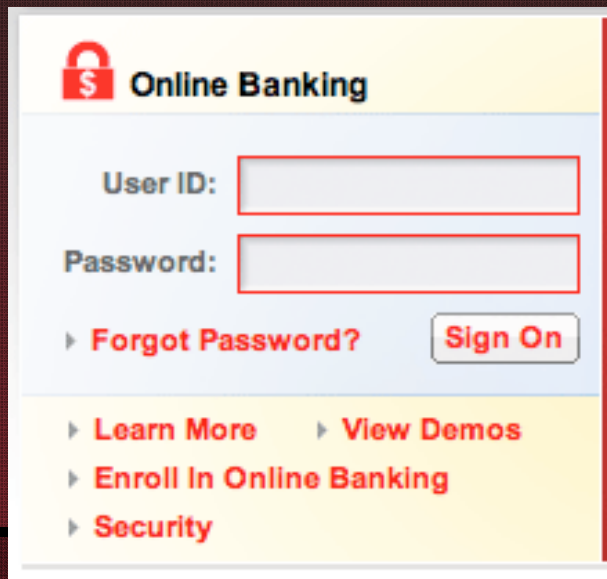


It is a Different World Out There Now!



**Unprecedented
Access**

It is a Different World Out There Now!



The image shows a screenshot of an online banking login interface. At the top left, there is a red padlock icon with a white dollar sign inside, followed by the text "Online Banking". Below this, there are two input fields: "User ID:" and "Password:". To the right of the "Password:" field is a "Sign On" button. Below the input fields, there are several links: "Forgot Password?", "Learn More", "View Demos", "Enroll In Online Banking", and "Security".

Online Banking

User ID:

Password:

▶ [Forgot Password?](#)

▶ [Learn More](#) ▶ [View Demos](#)

▶ [Enroll In Online Banking](#)

▶ [Security](#)

**Unprecedented
Access**

It is a Different World Out There Now!



**Online Bill Paying
Services**

It is a Different World Out There Now!



Debit Card Usage

Recent Fraud Trends

An employee cost his company, on average, over 3,000 per month for a three year period by charging personal expenses to the company credit card. (This isn't anything new)

The monthly payment of the credit card was accomplished by signing up for paperless statements and the new "convenient pay your bill online" system.

Recent Fraud Trends

Prevention/Detection Controls:

The individual responsible for reconciling the bank account should have no signature authority on the bank account... nor online bill payment authority

In the absence of an adequate staff size, the monthly bank statements HAVE to be reviewed by someone other than the person performing these tasks.

Recent Fraud Trends

Have you been to an Office Depot lately?... Home Depot?... Staples... Etc, Etc

An employee cost her company \$200,000 over a 4 year period by charging personal items to these types of accounts.

Payments on these accounts were accomplished by both paper check and online bill payment.

Recent Fraud Trends

Prevention/Detection Controls:

The individual responsible for reconciling the bank account should have no signature authority on the bank account... nor online bill payment authority

In the absence of an adequate staff size, the monthly bank statements HAVE to be reviewed by someone other than the person performing these tasks.

Recent Fraud Trends

An employee cost his company over \$1,000 per month by paying for personal items through the use of the company debit card.

The bank statements: Debit card transactions are a pain to read, hard to look at...

The supporting receipt or documentation is “easy” to lose or is not maintained adequately.

Recent Fraud Trends

Prevention/Detection Controls:

Assign and control daily authorized limits on debit card usage

An individual with responsibility for coding and recording transactions should have no ability to use a debit card.

Recent Fraud Trends

Prevention/Detection Controls:

Consider that the debit card usage portion of the bank statement is now an INVOICE.

In the absence of an adequate staff size, the monthly bank statements **HAVE to be reviewed by someone other than the person performing these tasks.**

Recent Fraud Trends

An employee cost his company \$25,000 over a one year period by colluding with an outside supplier in how return credits/rebates were being applied.

The employee had a personal account with the supplier... and credits were issued into his personal account rather than the company account.

Payment to the supplier was a 50% kickback.

Recent Fraud Trends

Prevention/Detection Controls:

Inventory must be tracked and accounted for...

- Weekly, Monthly, Annually (volume determines)
- Supplier-based customer inventory tracking

A Simple Approach

*Fraud
Prevention*

A hand is shown holding a circular dial meter, possibly a pressure gauge or a scale, with the number '90' visible on its face. The background is a blurred, light-colored surface, possibly a piece of equipment or a wall. The overall image has a greenish-yellow tint.

Prevention Effectiveness Checklist

2012 ACFE Report to the Nations on Occupational Fraud and Abuse

Is Ongoing Anti-Fraud Training Provided?

Do employees know what fraud is? (FRAUD POLICY)

Establishes that it is wrong to steal!!!!

Prevention Effectiveness Checklist

2012 ACFE Report to the Nations on Occupational Fraud and Abuse

Is Ongoing Anti-Fraud Training Provided?

Have fraud costs been made clear to employees?

- Fewer pay increases
- Increased layoffs
- Decreases in employee benefits
- Low employee morale
- Negative publicity for the cooperative

Prevention Effectiveness Checklist

2012 ACFE Report to the Nations on Occupational Fraud and Abuse

Is Ongoing Anti-Fraud Training Provided?

Do employees know where to go to report suspicions?

- **Is there an anonymous reporting structure in place?**
- **Do employees know they can report without fear?**
- **Do employees believe tips will be investigated?**

Prevention Effectiveness Checklist

2012 ACFE Report to the Nations on Occupational Fraud and Abuse

Is Ongoing Anti-Fraud Training Provided?

Do employees know the fraud warning signs?

- **An unwillingness to share duties**
- **A refusal to take vacations**
- **A close personal relationship with vendors**
- **Complaints about low pay**
- **Family problems**
- **Excessive pressure within the cooperative**

Prevention Effectiveness Checklist

2012 ACFE Report to the Nations on Occupational Fraud and Abuse

Do Hiring Practices Include the Following?

Past employment verification

Criminal and civil background checks

Credit checks / Drug screening

Education verification

References check

Follow-up Issues

What are the legal issues associated with following up on suspicious activity... and no fraud is found?

At what point should a CFE be called in to help with a potential investigation?

What is the difference between our annual audit and a forensic audit?

Fraud:

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and It Isn't What You Think They're Doing

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