

Fraud in the Workplace

Bill Douglas

November 21st, 2013



Cost Advisors' Background

- Founded in 1999
- Mission: Improve our client's business and the lives of our employees
- Focus on Accounting Investigation and Forensics
- Logo symbolizes partnership with our clients



About Bill Douglas

- President and Founder of Cost Advisors, Inc.
- Volunteer Fraud Investigator with Washington County Sheriff's Office and Hillsboro Police Dept.
- 34 years of experience
- Frequent speaker, writer, and instructor on fraud and internal controls



About Bill Douglas (cont.)

■ Credentials

- Certified Public Accountant (CPA)
- Certified Internal Auditor (CIA)
- Certified Fraud Examiner (CFE)
- Certified in Financial Forensics (CFF)
- Certified IT Professional (CITP)
- Chartered Global Management Accountant (CGMA)
- Licensed Private Investigator (PI)

■ Memberships

- American Institute of CPAs (AICPA)
- Oregon Society of CPAs (OSCPA)
- Institute of Internal Auditors (IIA)
- Association of Certified Fraud Examiners (ACFE)
- Oregon Association of Licensed Investigators (OALI)
- Northwest Fraud Investigators Association (NWFIA)
- Associate Member of Multnomah Bar Association (MBA)



CERTIFIED FRAUD EXAMINER



Oregon Society of CPAs



Northwest Fraud
Investigators Association

Fraud Vocabulary Quiz

Fraud

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Fraud Vocabulary Quiz

Baksheesh

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Bicheiro

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Big Bath Charges

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Agenda – Fraud in the Workplace

1. Prevalence

2. How it's committed

3. Detection

4. Victims

5. Perpetrators

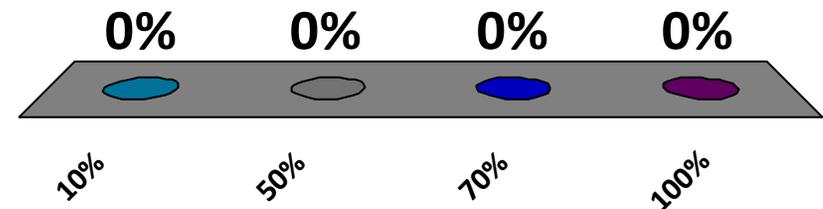
6. Preventing

Do tell me:
Over the last year, what
percentage of companies
(worldwide) were affected
by fraud?



- A. 10%
- B. 50%
- C. 70%
- D. 100%

Source: Kroll 2013/2014 Global Fraud Report



Kroll Global Fraud Report 2013/2014

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REPORT TO THE NATIONS
ON OCCUPATIONAL FRAUD AND ABUSE

2012 GLOBAL FRAUD STUDY



Based on 1,388 fraud cases investigated worldwide.



THE 2012 MARQUET REPORT ON EMBEZZLEMENT

A WHITE COLLAR FRAUD
STUDY OF MAJOR EMBEZZLEMENT
CASES ACTIVE IN THE U.S. IN 2012

Published by Marquet International, Ltd.
May 14, 2013

Based on 528 cases appearing in court records, prosecutorial press releases, media accounts, vital records, government & regulatory filings and other public information.

Findings noted in **green**.

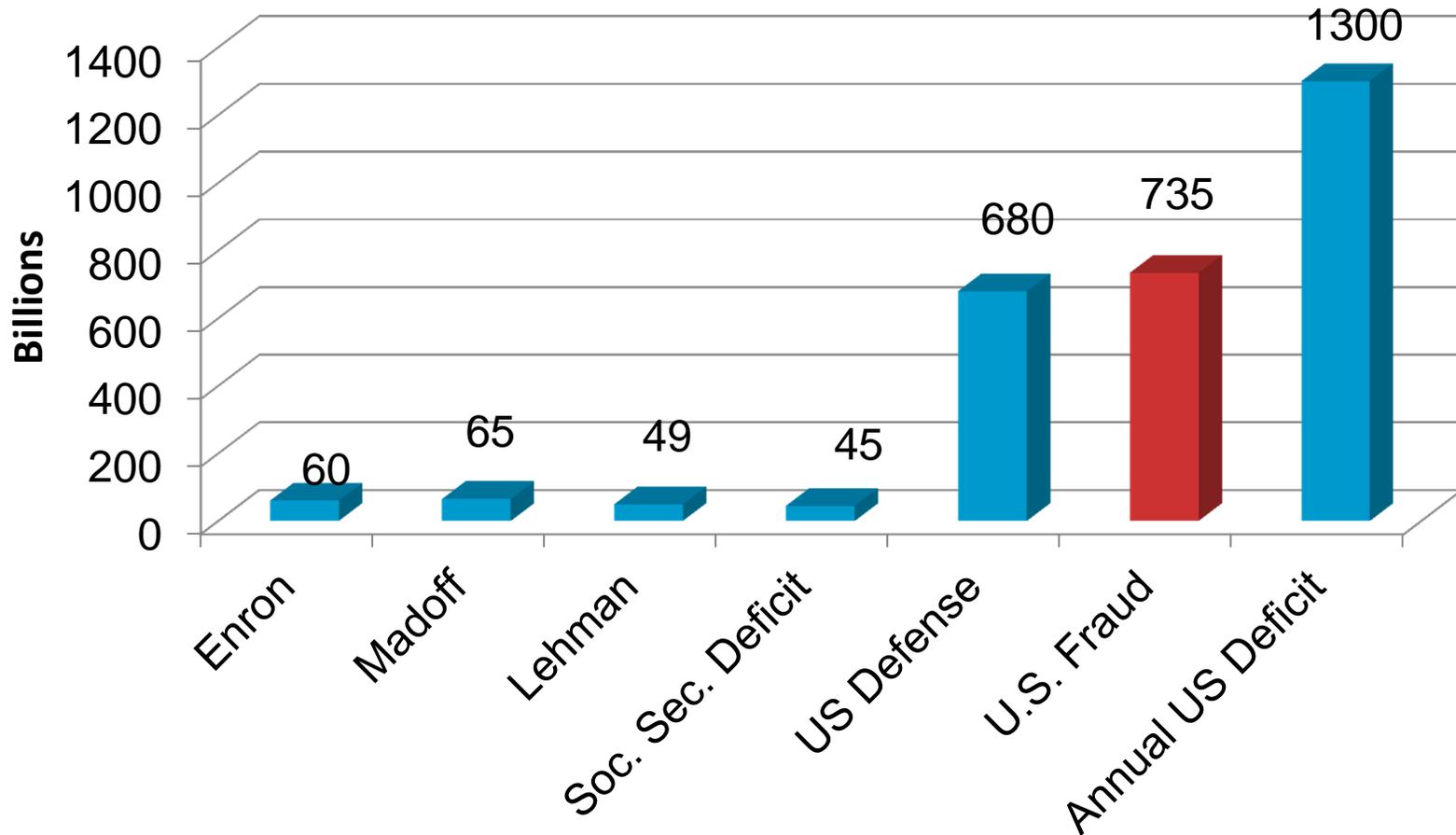
Prevalence of Fraud

U.S. organizations
lose 5%* of their
annual revenues to
fraud

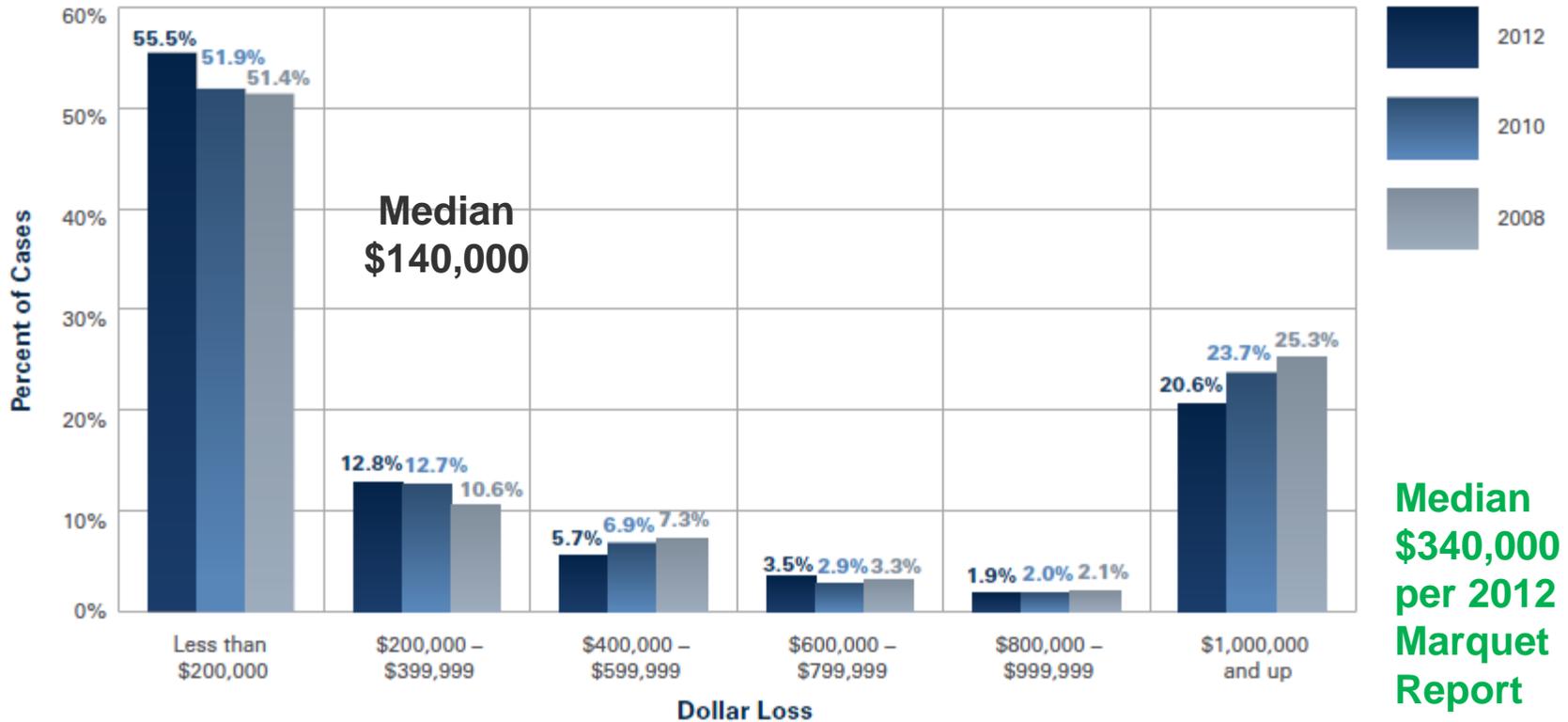


Source: ACFE 2012 Report to the Nations. Kroll found 1.2%.

Amounts Lost (or Spent)



Distribution of Dollar Loss



Source: ACFE 2012 Report to the Nations

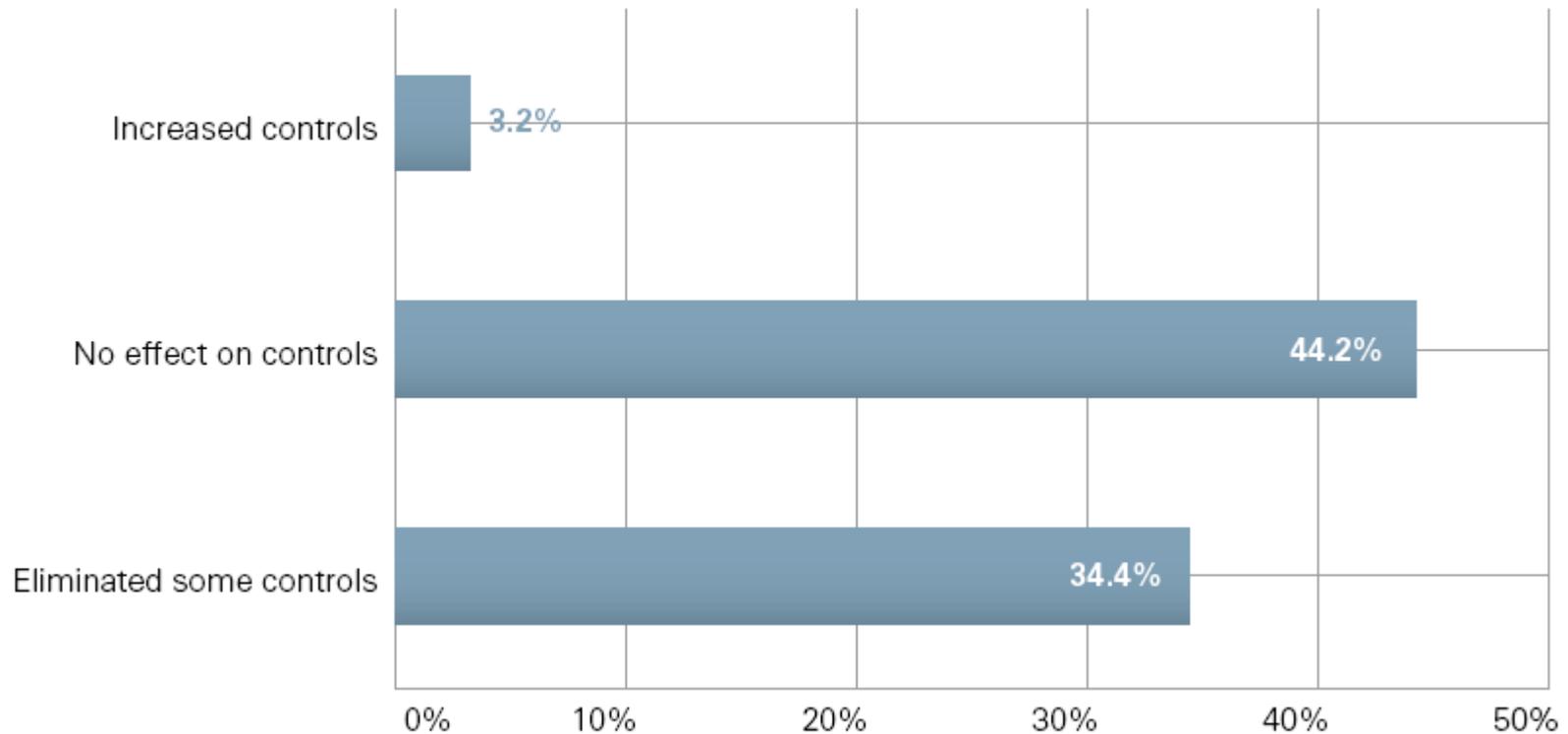
Recession – What Increased?



Source: **ACFE** Occupational Fraud: A Study of the Impact of an Economic Recession, 2009.

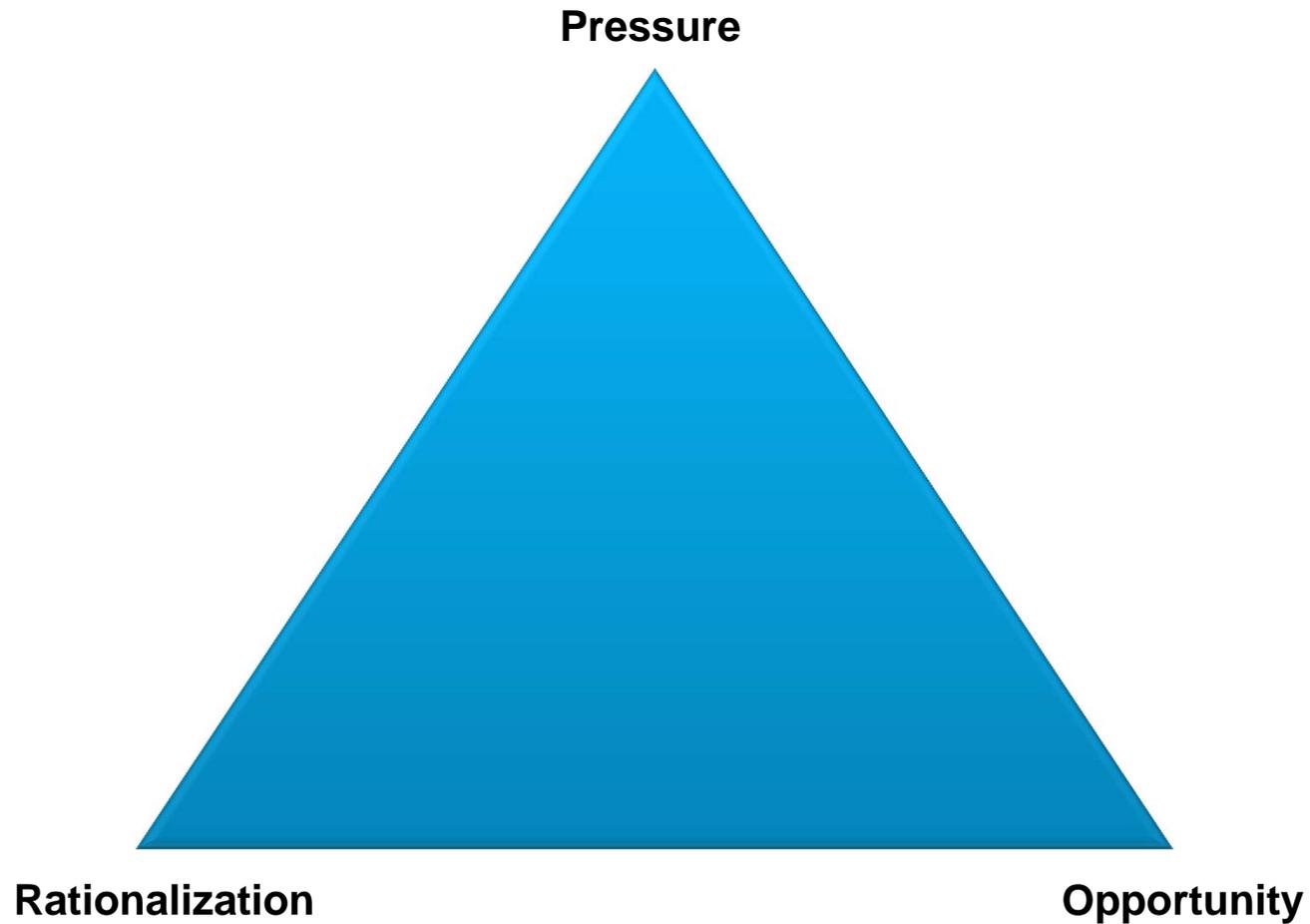
Recession –Layoffs vs. Controls

Effect of Layoffs on Internal Controls



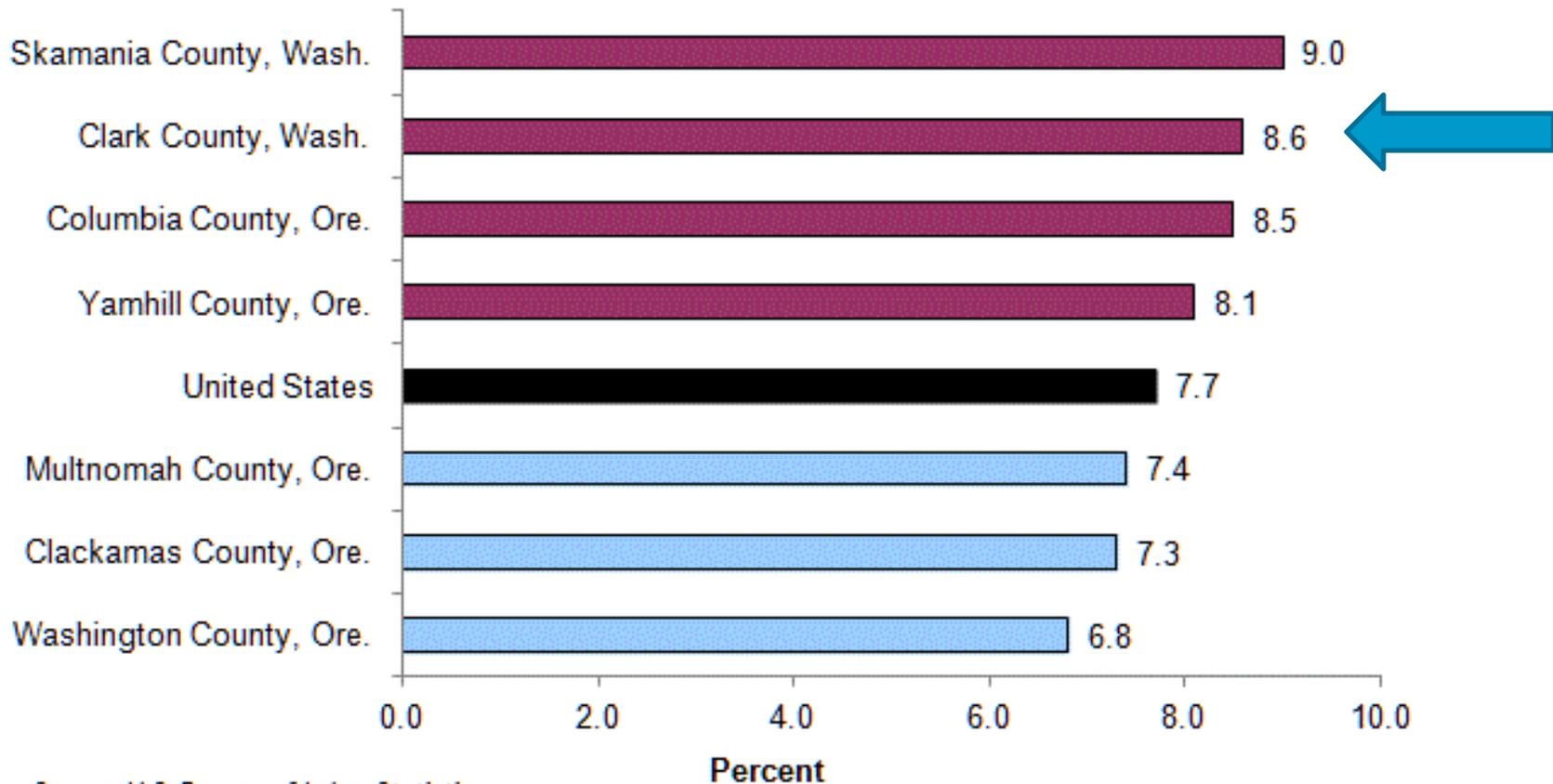
Source: ACFE Occupational Fraud: A Study of the Impact of an Economic Recession, 2009.

Fraud Triangle



Unemployment = Pressure + Opportunity + Rationalization

Chart 1. Unemployment rates for the United States and counties in the Portland-Vancouver-Hillsboro, Ore.-Wash. Metropolitan Statistical Area, July 2013, not seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

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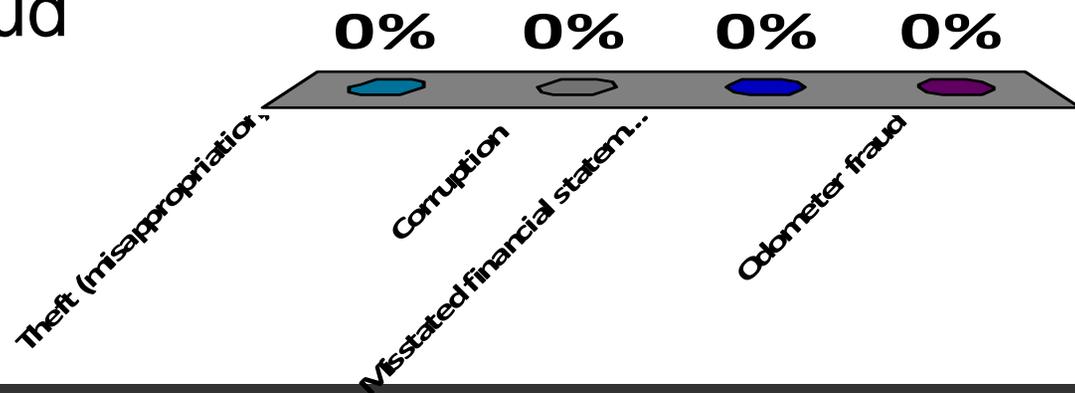
6. Preventing

Do tell me:

The most frequent type of workplace fraud

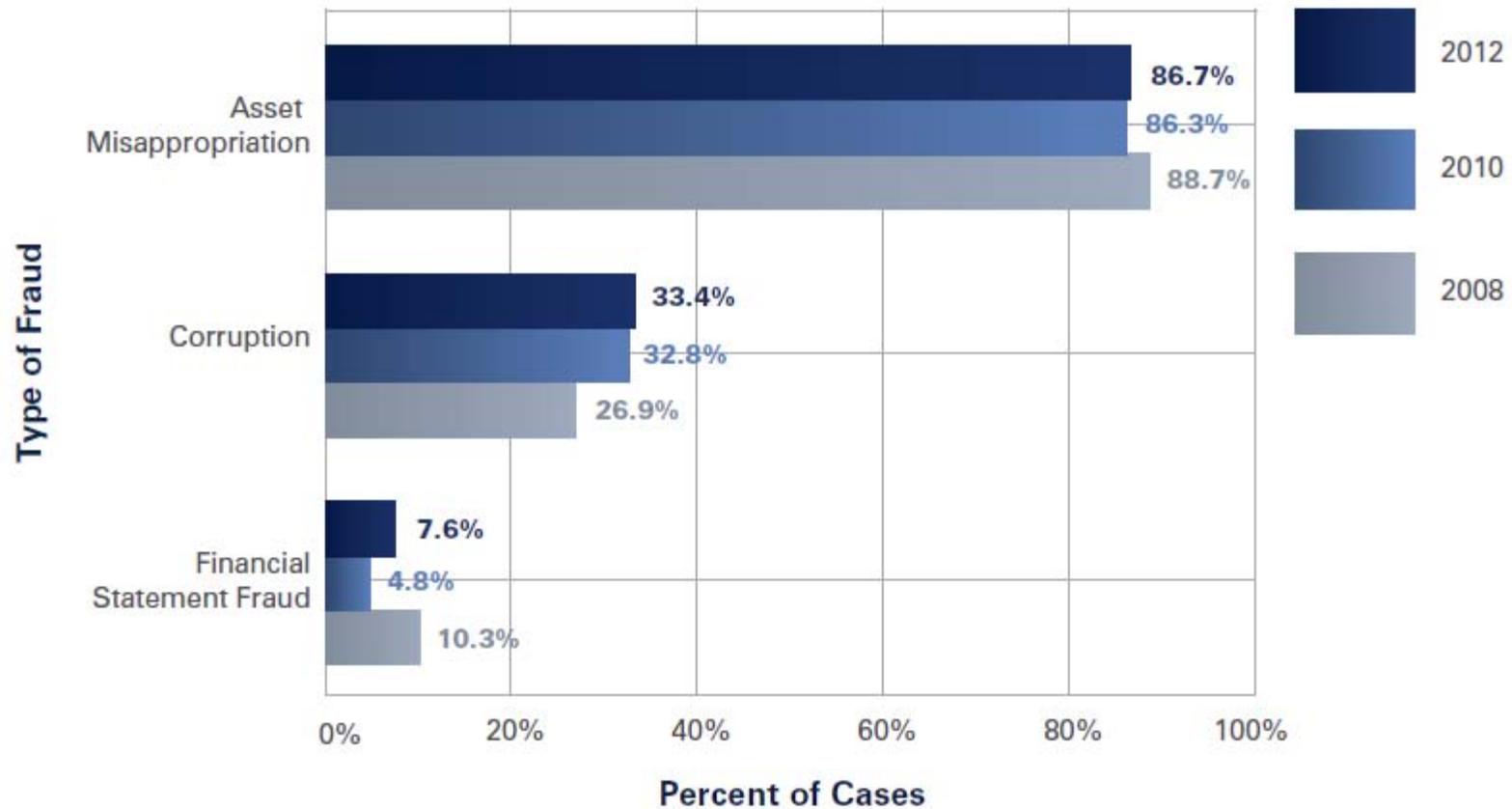


- A. Theft
(misappropriation)
- B. Corruption
- C. Misstated financial
statements
- D. Odometer fraud



Occupational Fraud by Category -

Occupational Frauds by Category — Frequency



Source: ACFE 2012 Report to the Nations

Misappropriation Frequencies and \$

Cash Receipts 27%



Skimming
14.6%
\$58K



Cash Larceny
11.0%
\$54K



Cash on Hand
11.8%
\$20K



Non-Cash
17.2%
\$58K

Cash Disbursements 64%



Billing
24.9%
\$100K



Check Tampering
11.9%
\$143K



Expense Reimbursements
14.5%
\$26K



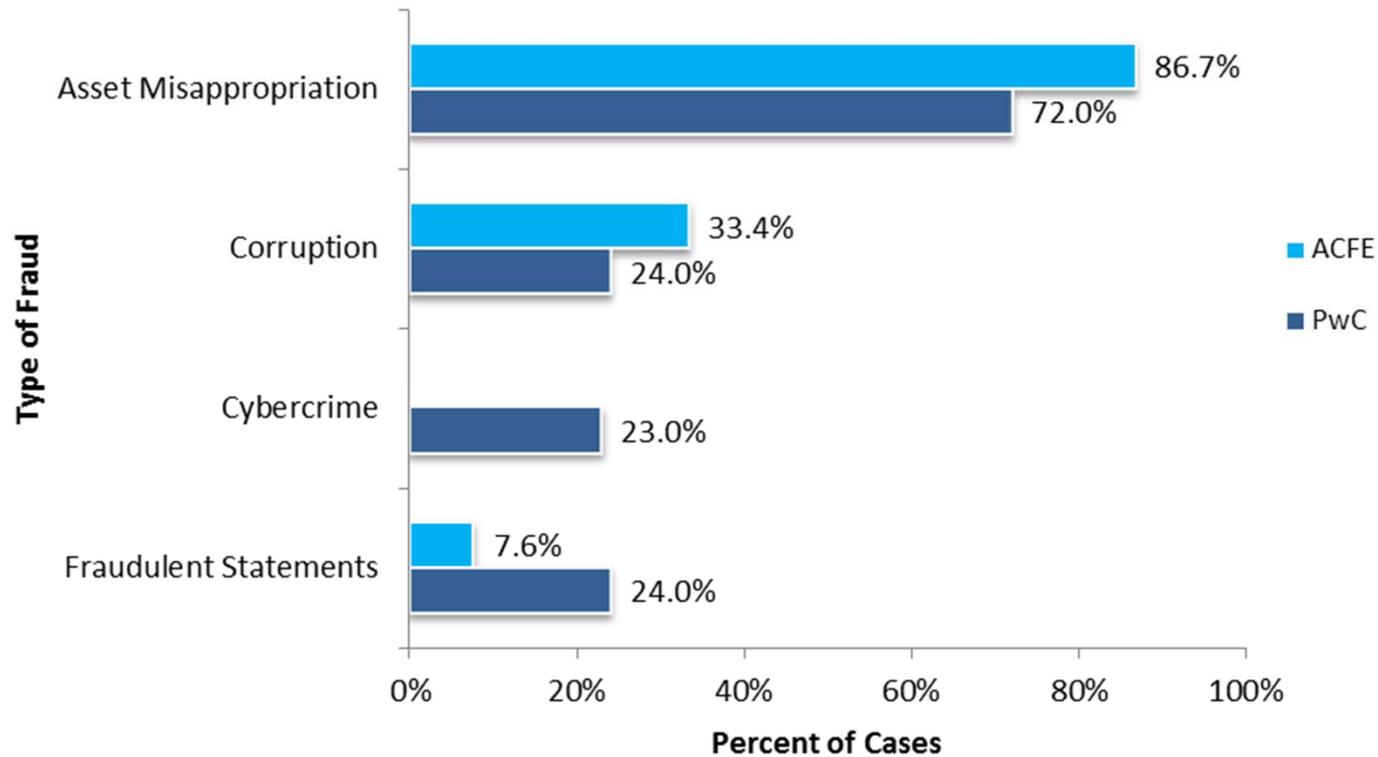
Payroll
9.3%
\$48K



Cash Register
3.6%
\$25K

Source: ACFE 2012 Report to the Nations

Fraud by Category – ACFE vs. PwC



Source: ACFE 2012 Report to the Nations & PwC Cybercrime Report 2011

New Cybercrime category

Cybercrime – economic crime using computers and the internet

Types of Cyber Attack:

- Economic Crime - hacking
- Espionage – IP theft. Kroll: 50% Co.'s vulnerable
- Activism - WikiLeaks
- Terrorism – Power grid, Financial Systems
- Warfare

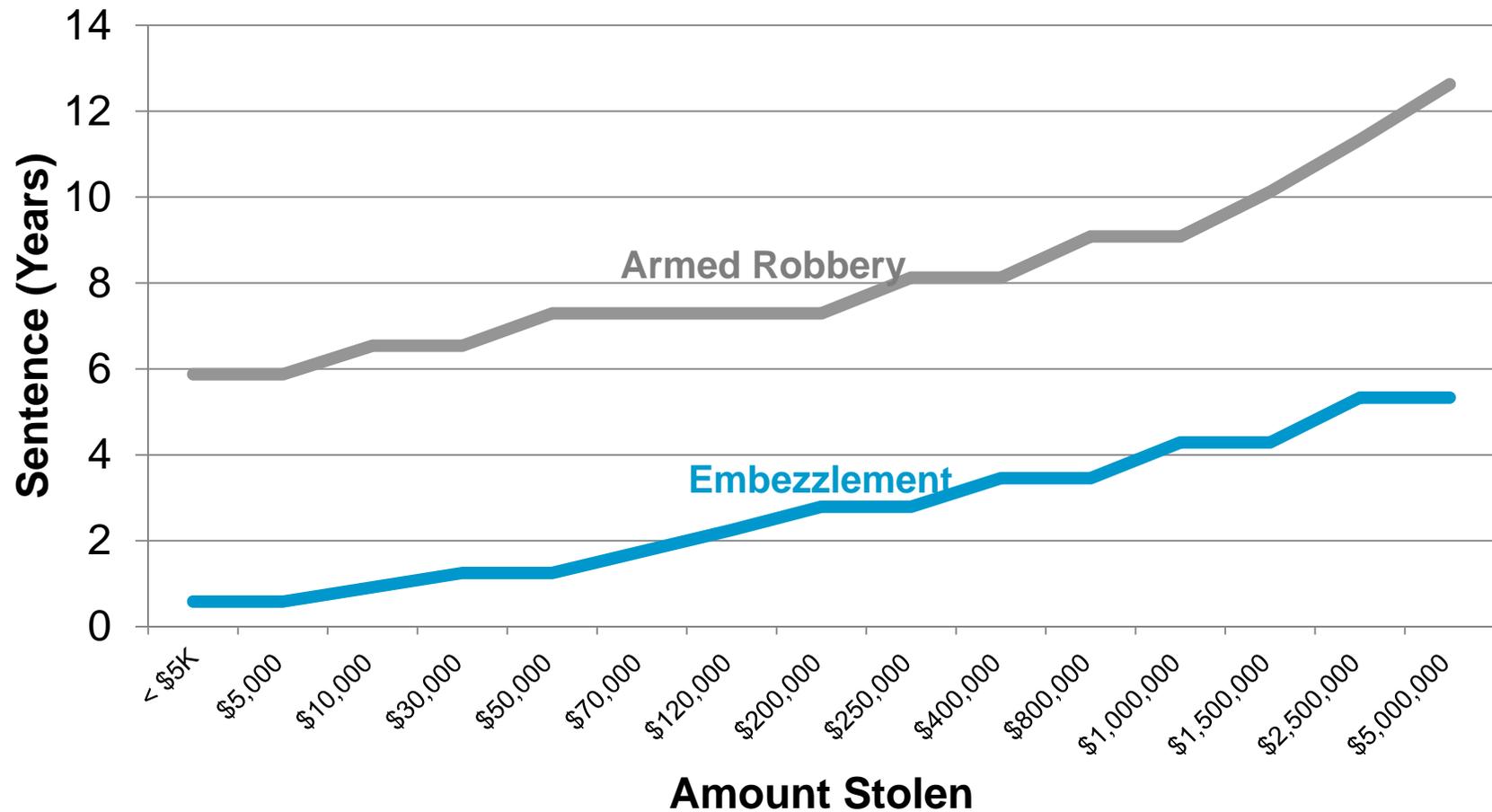
Source: Cybercrime: protecting against the growing threat, November 2011, PwC

Cybercrime a Growth Business!

	Robbery	White Collar	Cybercrime
Rewards are greater	(1)	✓	✓
Less chance of detection		✓	✓
Less chance of identification			✓
Less chance of prosecution			
Criminal is remote			✓
Law enforcement is not equipped		✓	✓
Less evidence			✓
Smaller penalties		✓	✓

(1) In the U.S., based on 2006 data, the average take from a bank heist was \$4,330 per The Fiscal Times, Yuval Rosenberg, June 11, 2012.

White Collar Crime Penalty



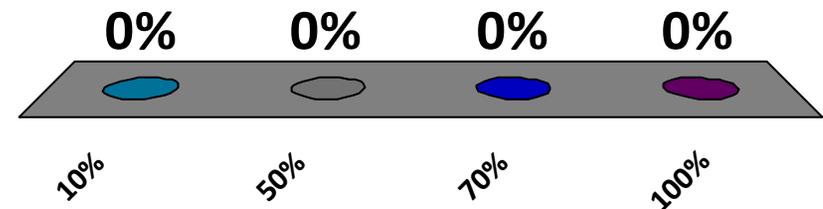
Source: Median penalty assuming no prior convictions per Federal Sentencing Guidelines, 2011.

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Source: Kroll 2013/2014 Global Fraud Report

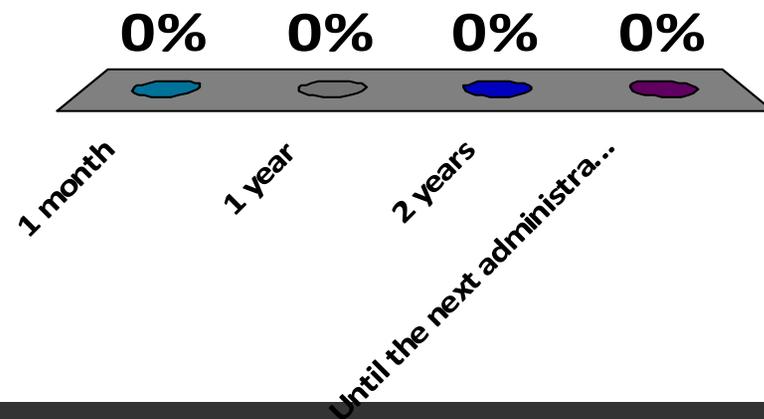


Do tell me:

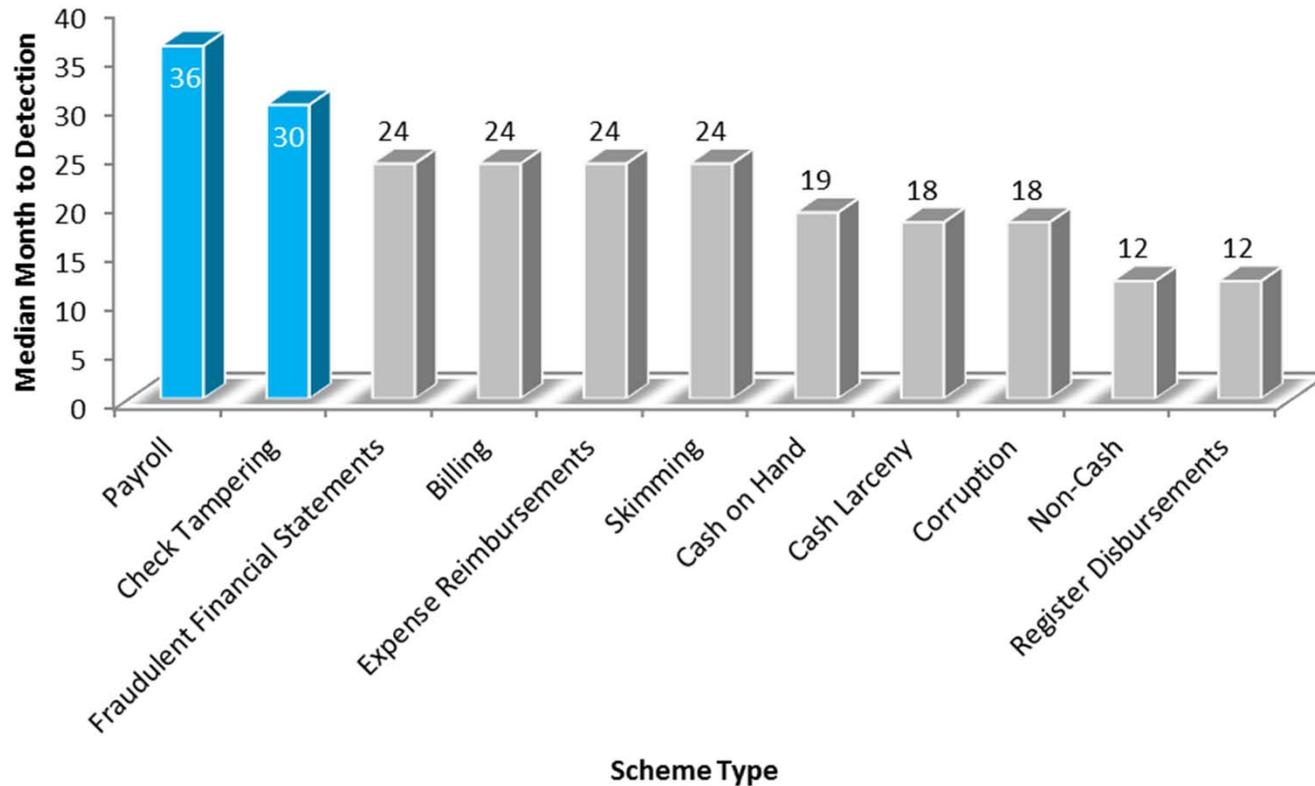
How long does the average fraud last before detection?



- A. 1 month
- B. 1 year
- C. 2 years
- D. Until the next administration is sworn in



Median Duration of Fraud Based on Scheme Type



Median is
24 months

Median is
48 months
per 2012
Marquet
Report

Source: ACFE 2012 Report to the Nations

Fraud Vocabulary Quiz

Top Hatting

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Wet Ink Policies

Left Blank Intentionally

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4. Victims

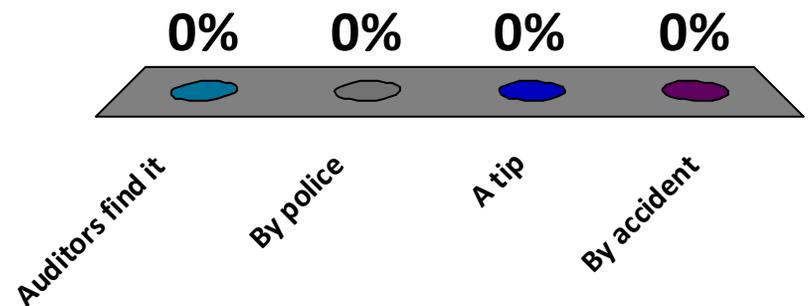
5. Perpetrators

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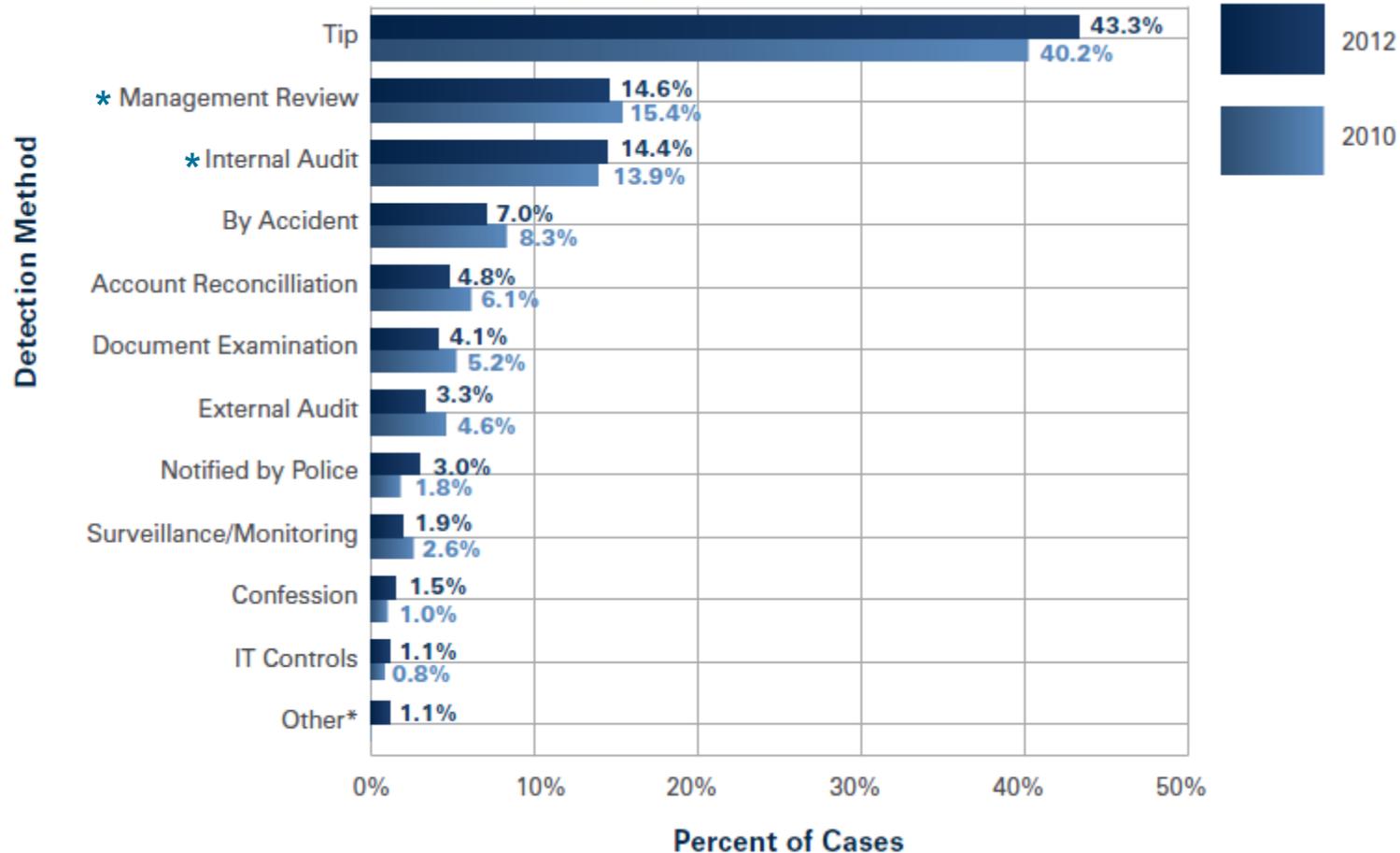
Do tell me: How is fraud most often detected?



- A. Auditors find it
- B. By police
- C. A tip
- D. By accident



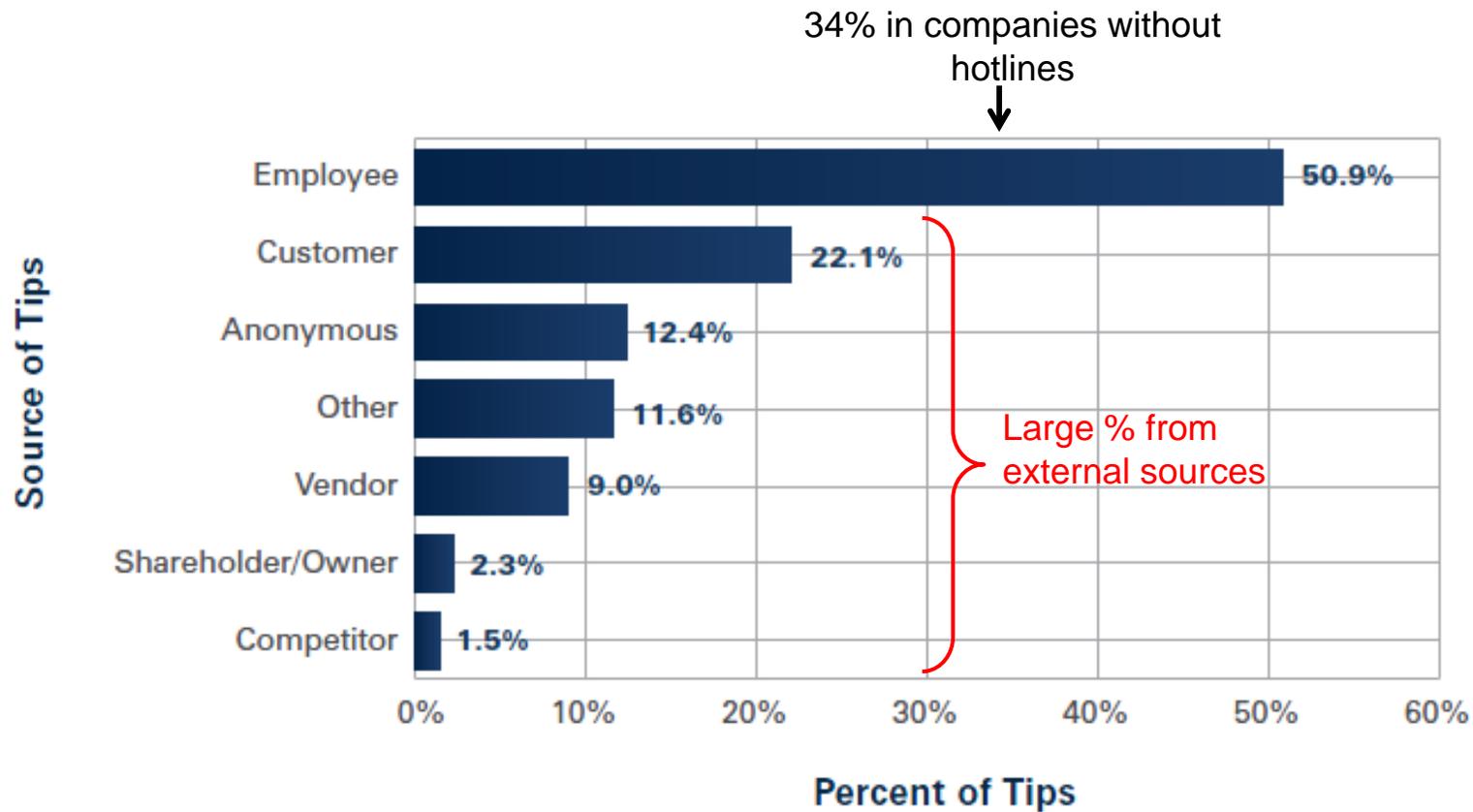
Initial Detection of Occupational Frauds



Source: ACFE 2012 Report to the Nations

* Top detection per PwC

Percent of Tips by Source



Source: ACFE 2012 Report to the Nations

Frequency of Anti-Fraud Controls

Median Loss Based on Presence of Anti-Fraud Controls				
Control	Percent of Cases Implemented	Control in Place	Control Not in Place	Percent Reduction
Management Review	60.5%	\$100,000	\$185,000	45.9%
Employee Support Programs	57.5%	\$100,000	\$180,000	44.4%
Hotline	54.0%	\$100,000	\$180,000	44.4%
Fraud Training for Managers/Executives	47.4%	\$100,000	\$158,000	36.7%
External Audit of ICOFR	67.5%	\$120,000	\$187,000	35.8%
Fraud Training for Employees	46.8%	\$100,000	\$155,000	35.5%
Anti-Fraud Policy	46.6%	\$100,000	\$150,000	33.3%
Formal Fraud Risk Assessments	35.5%	\$100,000	\$150,000	33.3%
Internal Audit/FE Department	68.4%	\$120,000	\$180,000	33.3%
Job Rotation/Mandatory Vacation	16.7%	\$100,000	\$150,000	33.3%
Surprise Audits	32.2%	\$100,000	\$150,000	33.3%
Rewards for Whistleblowers	9.4%	\$100,000	\$145,000	31.0%
Code of Conduct	78.0%	\$120,000	\$164,000	26.8%
Independent Audit Committee	59.8%	\$125,000	\$150,000	16.7%
Management Certification of F/S	68.5%	\$138,000	\$164,000	15.9%
External Audit of F/S	80.1%	\$140,000	\$145,000	3.4%

Source: ACFE 2012 Report to the Nations

Warning Signs

- Records are disorganized or missing
- There are unexplained changes in your accounting records
- There is an unusual drop in available cash
- There are unusually large or numerous credit memos to others
- Bank reconciliations are late
- Bank deposits are delayed (i.e. deposits in transit too high)
- There are too many increases in past due accounts receivable
- Check amounts are altered
- Duplicate payments are made
- Too many payments are being made to individuals with the same name or address

Agenda – Fraud in the Workplace

1. Prevalence

2. How it's committed

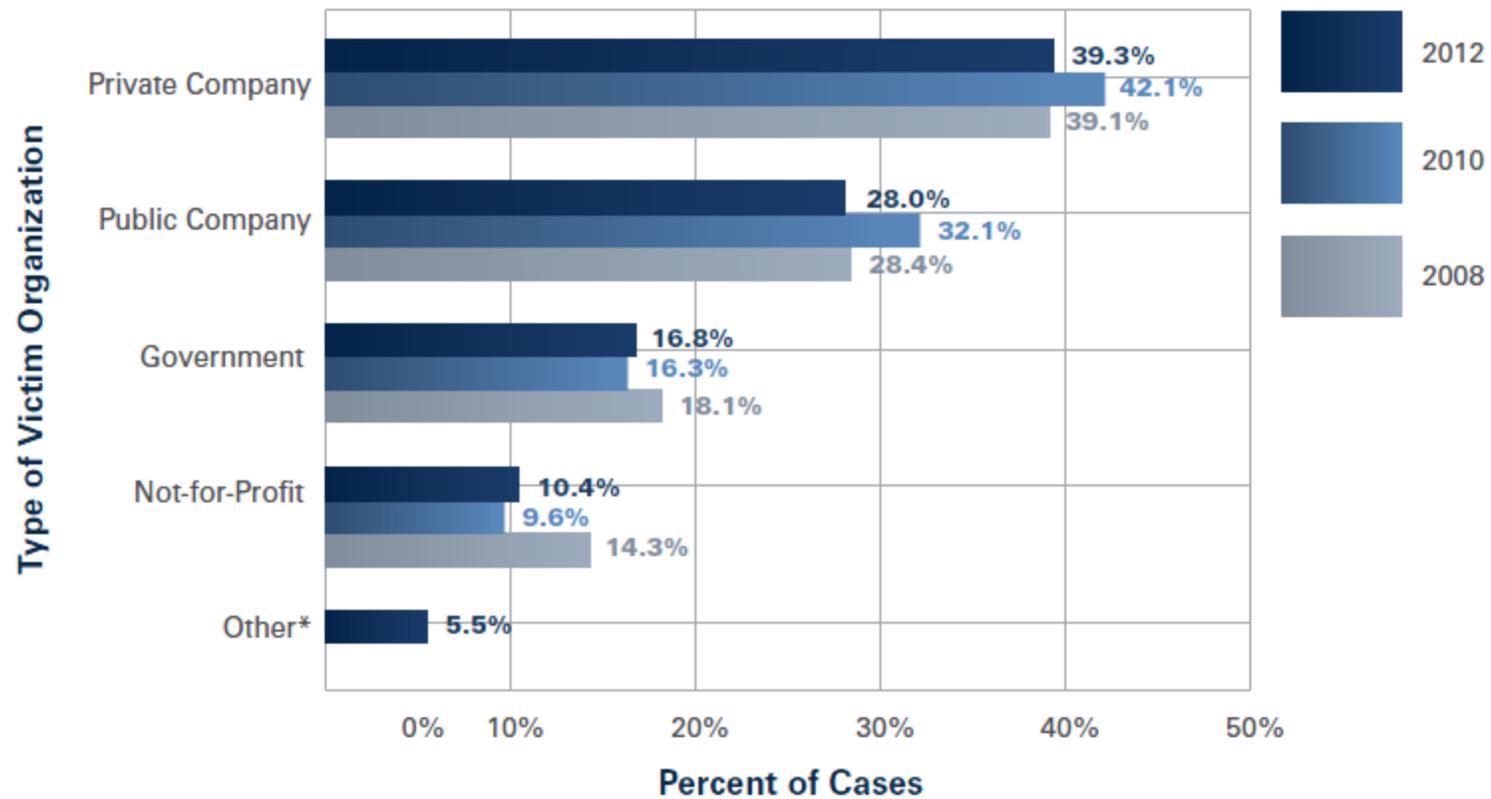
3. Detection

4. Victims

5. Perpetrators

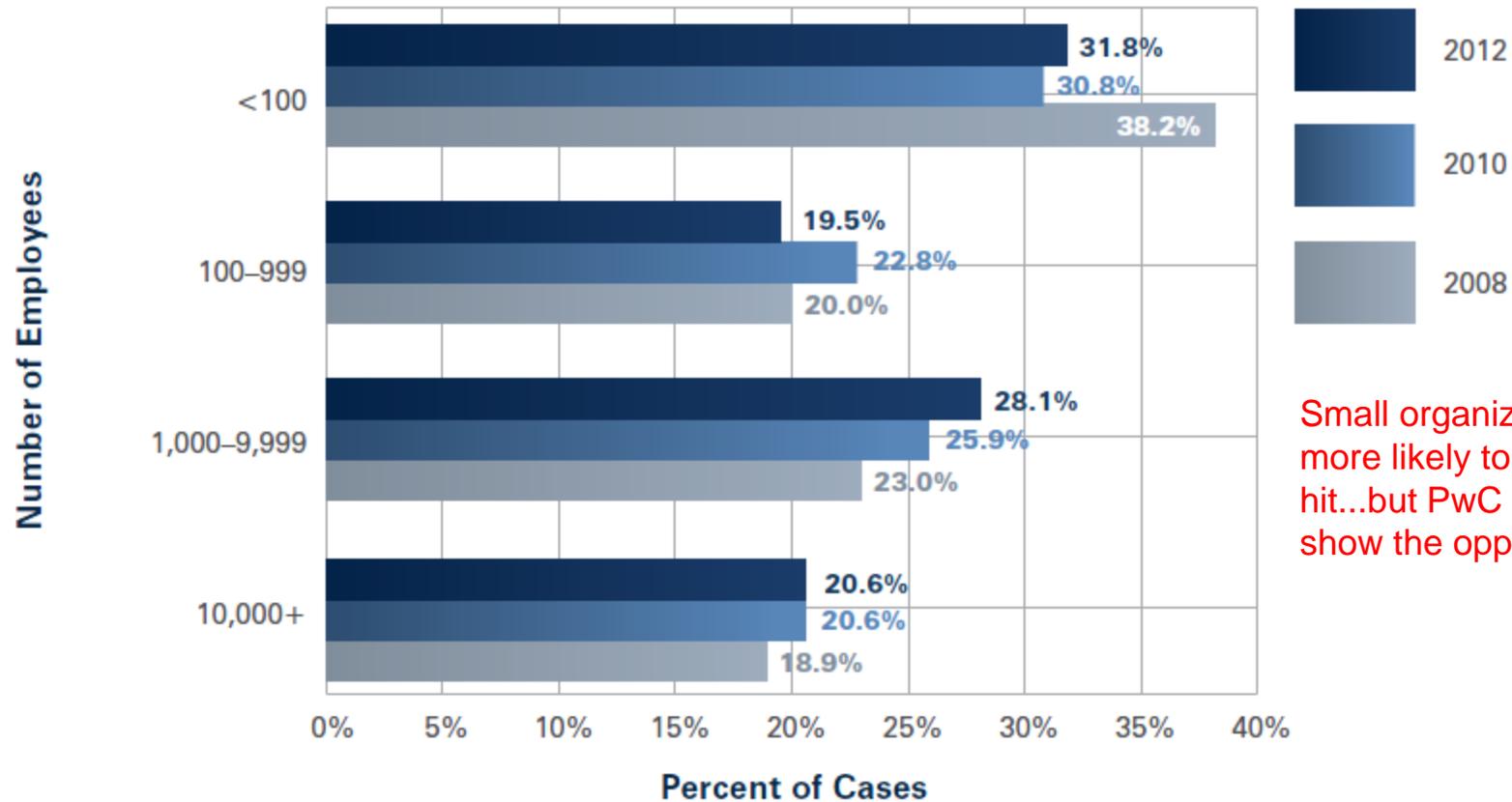
6. Preventing

Type of Victim Organization - Frequency



Source: ACFE 2012 Report to the Nations

Size of Victim Organization - Frequency



Small organizations more likely to be hit...but PwC results show the opposite

Source: ACFE 2012 Report to the Nations

Victim Industry Frequency

Some industries are more likely to hire CFEs

	Industry	Number of Cases	Percent of Cases
*	Banking and Financial Services	229	16.70%
*	Government and Public Administration	141	10.30%
	Manufacturing	139	10.10%
	Health Care	92	6.70%
	Education	88	6.40%
	Retail	83	6.10%
*	Insurance	78	5.70%
	Services (Professional)	55	4.00%
	Religious, Charitable or Social Services	54	3.90%
	Services (Other)	48	3.50%
	Construction	47	3.40%
	Oil and Gas	44	3.20%
	Telecommunications	43	3.10%
	Technology	38	2.80%
	Transportation and Warehousing	36	2.60%
	Arts, Entertainment and Recreation	32	2.30%
	Real Estate	28	2.00%
	Wholesale Trade	27	2.00%
	Utilities	24	1.80%
	Agriculture, Forestry, Fishing and Hunting	20	1.50%
	Mining	9	0.70%
*	Communications and Publishing	9	0.70%
	Other	7	0.50%

Source: ACFE 2012 Report to the Nations * Top industries per PwC Results similar to Marquet

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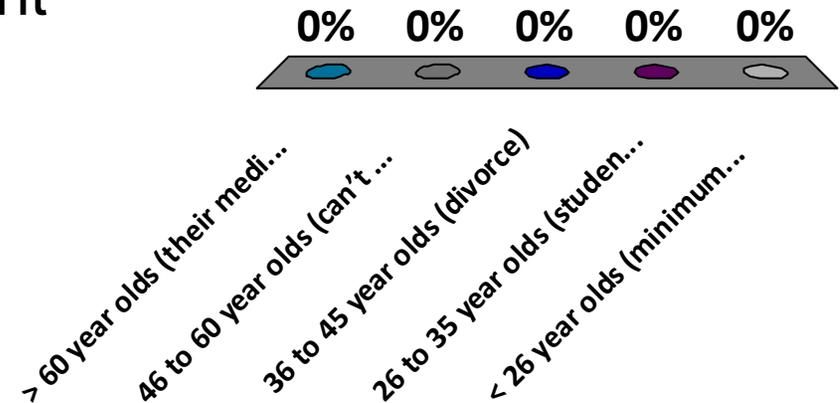
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Do tell me:

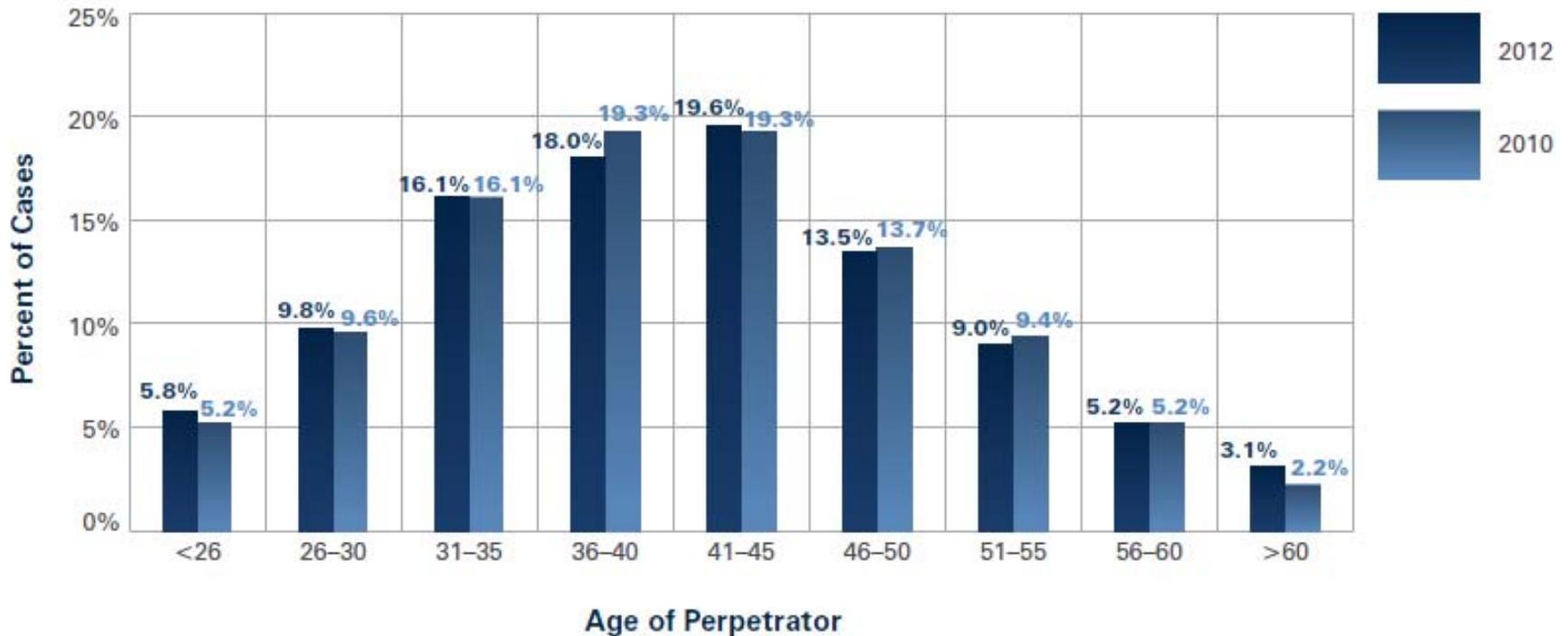
What age group commits the most frauds?



- A. > 60 year olds (their medical bills are higher)
- B. 46 to 60 year olds (can't pay their mortgage)
- C. 36 to 45 year olds (divorce)
- D. 26 to 35 year olds (student loans, credit cards)
- E. < 26 year olds (minimum wage is not enough)



Age of Perpetrator — Frequency



Cybercrime criminals usually
<40 years old (PwC)

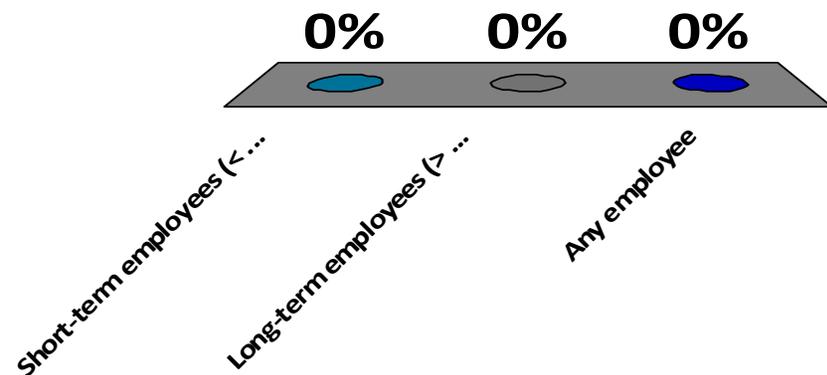
Source: ACFE 2012 Report to the Nations

Do tell me:

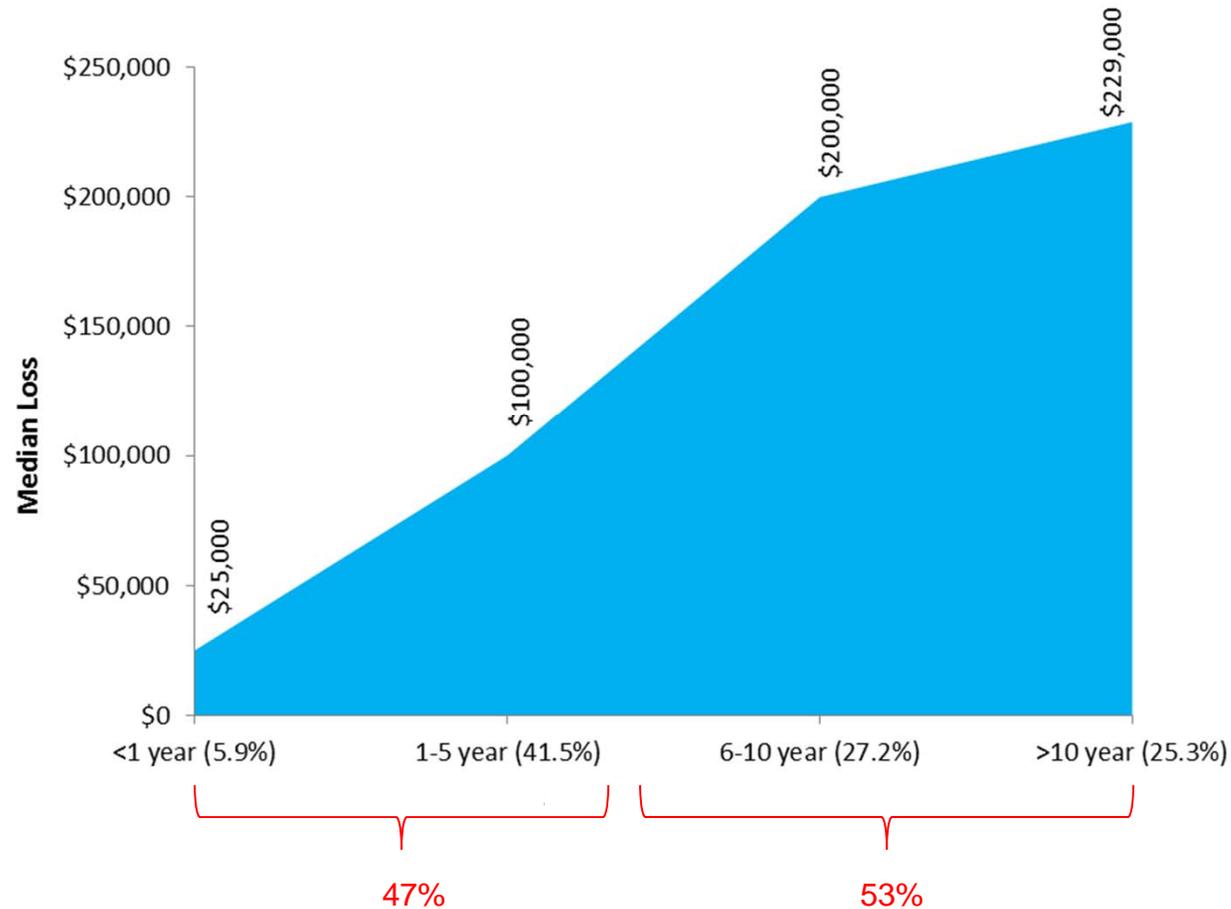
Which employee is more likely to commit fraud?



- A. Short-term employees (< 5 years)
- B. Long-term employees (> 5 years)
- C. Any employee



Tenure of Perpetrator — Frequency and Median Loss



Source: ACFE 2012 Report to the Nations

Education of Perpetrator — Median Loss



The value of a good education!

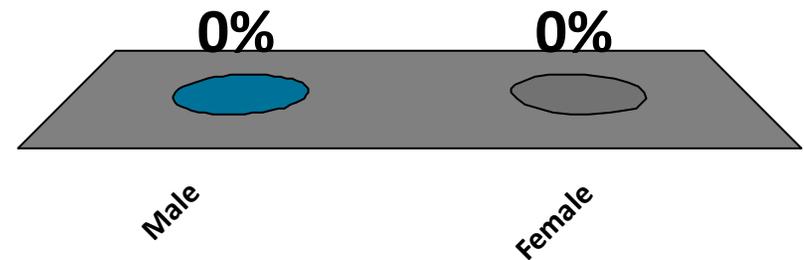
Source: ACFE 2012 Report to the Nations

Do tell me:

Which gender is most likely to commit fraud?

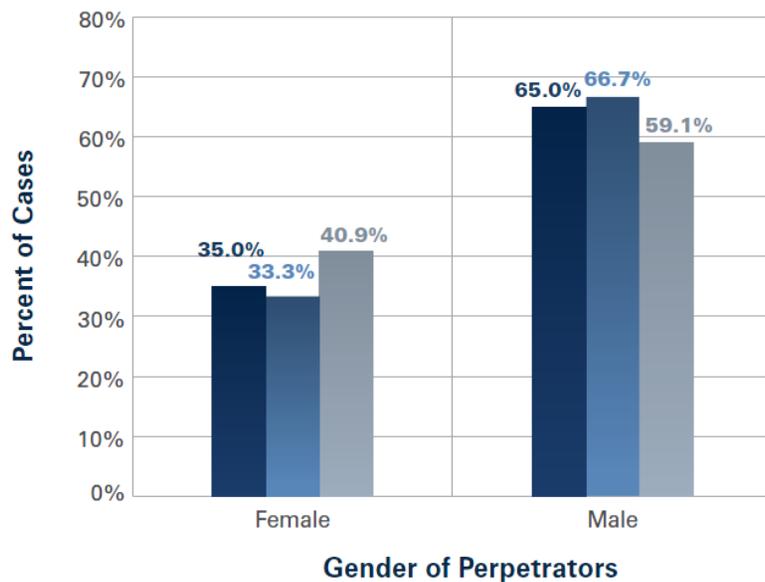


- A. Male
- B. Female



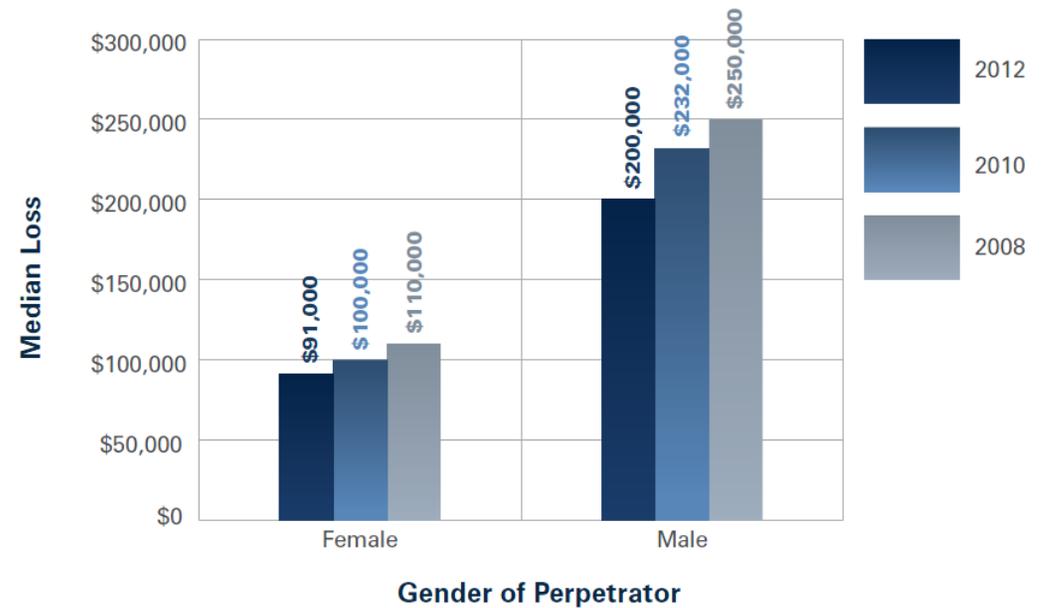
The Glass Ceiling

Gender of Perpetrator — Frequency



**42% male and 58% female
per 2012 Marquet Report**

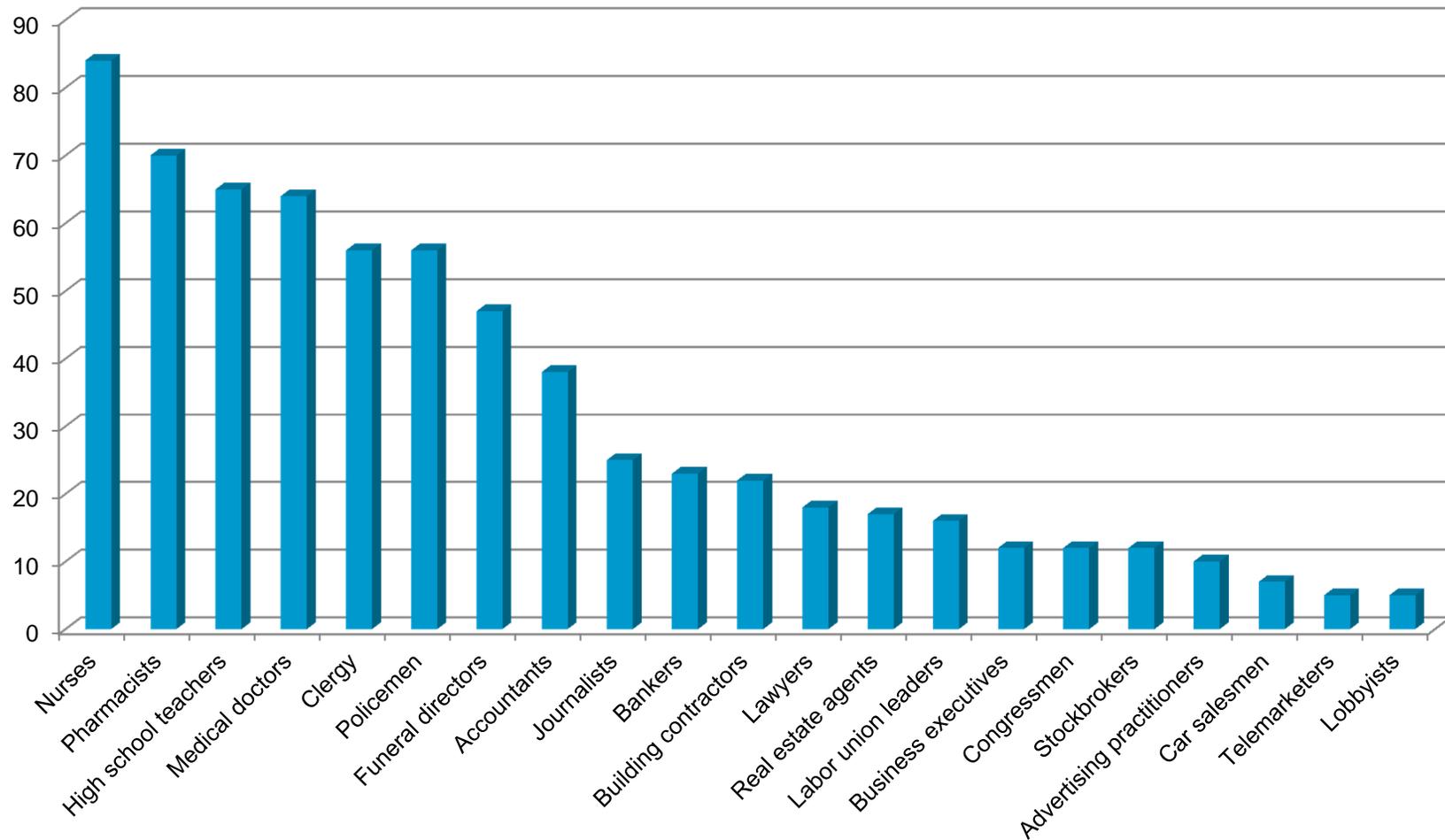
Gender of Perpetrator — Median Loss



**Glass ceiling:
77 cents per \$1 all occupations
44 cents per \$1 in fraud**

Source: ACFE 2012 Report to the Nations

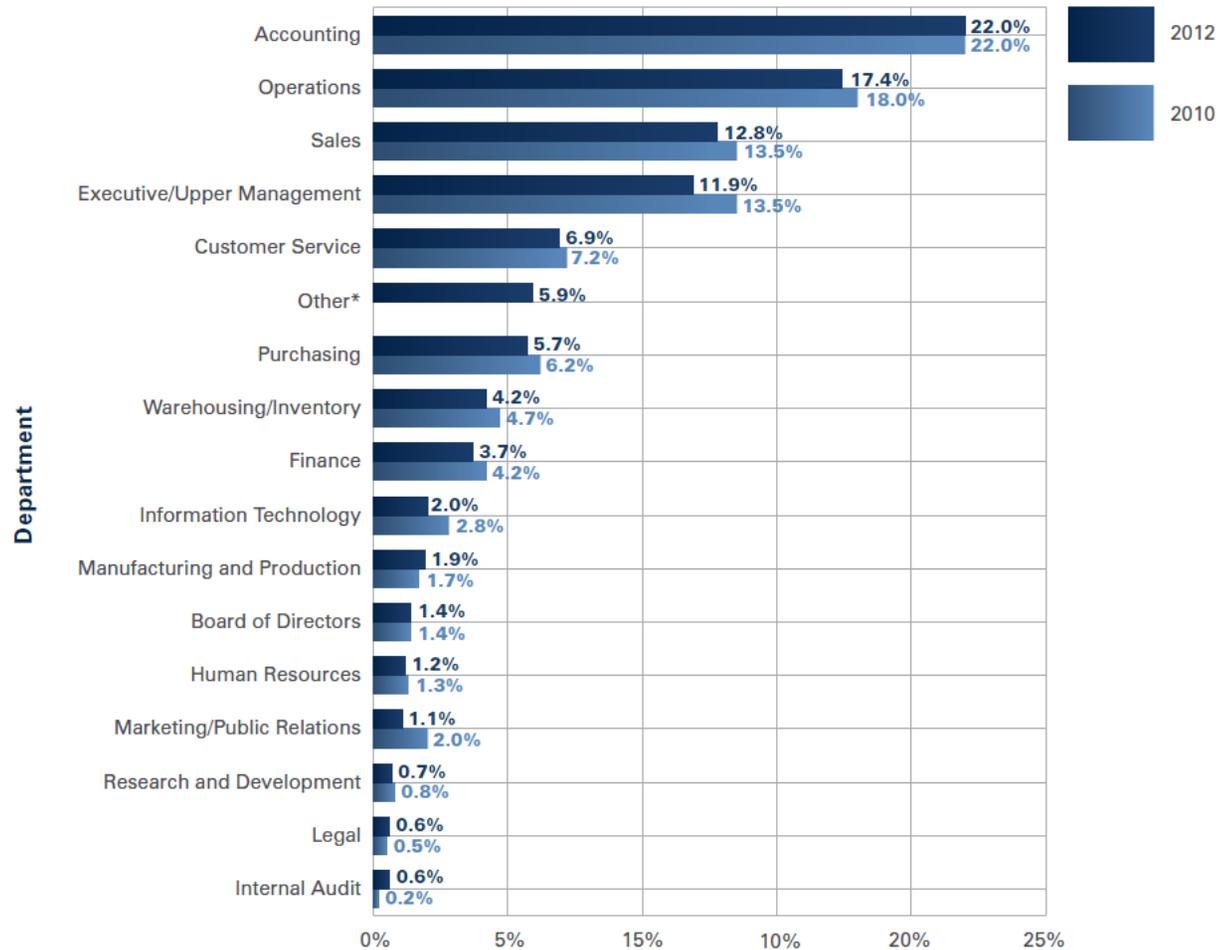
High Ethical Standards?



Ranked 'Very High' or 'High' in ethical standards according to a Gallup Poll from November, 2008.

Perpetrator's Department

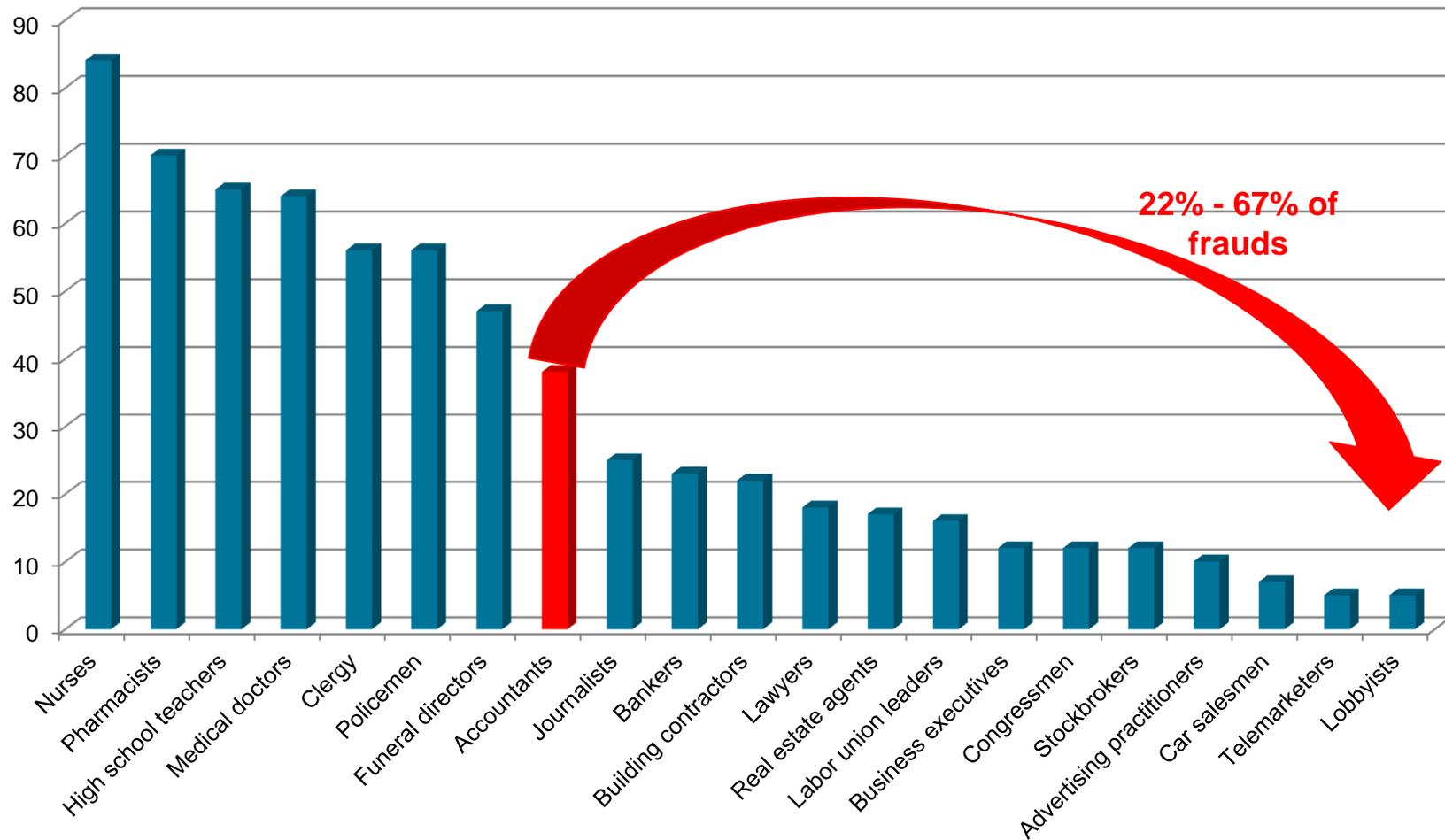
68.2%
Accountants
per 2012
Marquet Report



Source: ACFE 2012 Report to the Nations

Percent of Cases

Fraud Perception vs. Reality



Ranked 'Very High' or 'High' in ethical standards according to a Gallup Poll from November, 2008.

Can Fraud make you happy?



a) Embezzled Nearly \$250K
In Part To Pay For Breast
Implants & Tummy Tuck



b) Allegedly collected and
kept employees' tax
withholdings for nearly
two years



c) Charged with obtaining a
fraudulent \$2.1 million tax
refund on a debit card

Can Fraud make you happy?

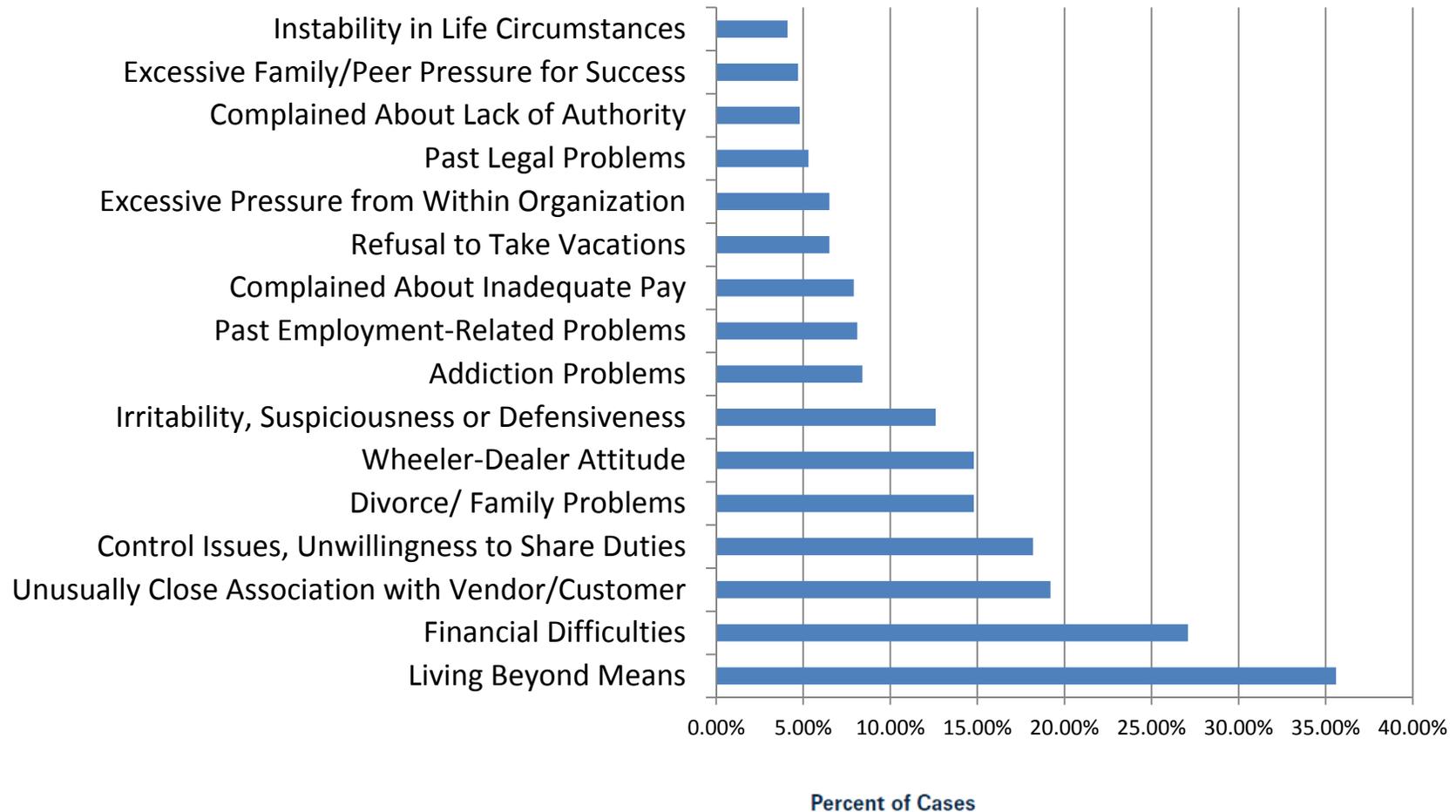
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Wait, wait...don't tell me

- What are the 'red flags' of a fraudster (all that apply)?

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Red Flags

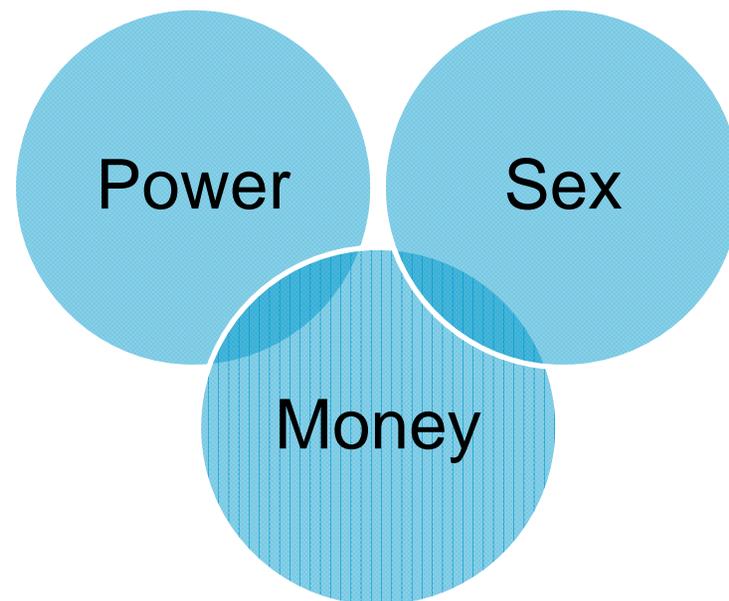


Acting alone 84% of the time per 2012 Marquet Report

Source: ACFE 2012 Report to the Nations

Red Flags – Deviant Behavior Hypothesis

- Drivers: Money, Power, Sex
- Workplace: Porn, affairs, harassment, bullying, fraud, theft



Source: Using Deviant Behaviors of Others to Find Fraud (UDBOFF), Ryan Hubbs, June 2011.

Red Flags – Per KPMG

- Bullies co-workers, rude, aggressive, threatening
- Stressed, unhappy, unmotivated
- Reluctance to produce records
- Outsized lifestyle, financial problems
- Accepts (improper) gifts, breaks rules
- Rumored bad habits, addictions, vices



Source: Who is a Typical Fraudster?, KPMG analysis of 349 actual fraud cases in 69 countries from January 2008 until December 2010.

Case Study – Charlotte Allen-Dinsdale

- 36 years old
- Vancouver, WA
- Receptionist New Day Community Dental Clinic, a nonprofit organization
- In charge of scheduling appointments, collecting payments, and insurance billing
- Helped organize and set up the non-profit, which opened in 2011

Allen-Dinsdale's Scheme

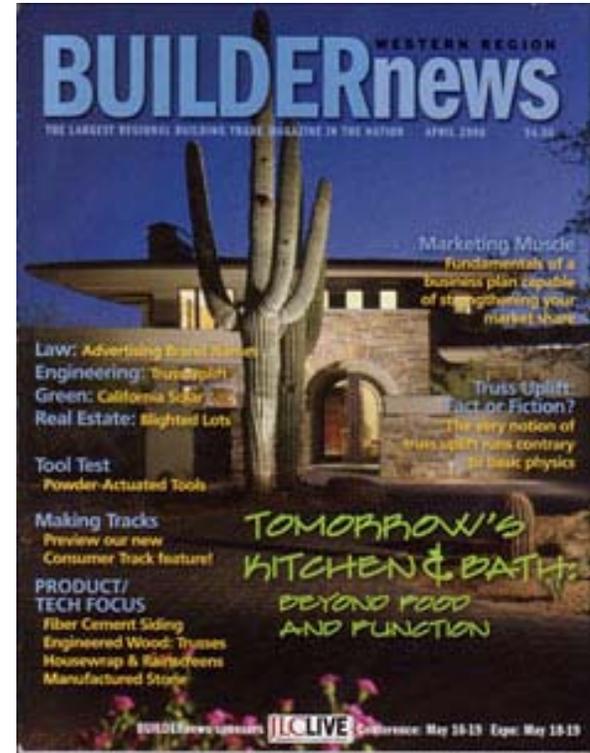
- Deleted appointments and payments from the computer
- Clinic lost more than \$41,000 between March 2011-February 2012
 - \$35,500 missing cash and payments
 - \$6,200 write offs of 16 visits of family members

What Happened?

- A cash shortage was discovered and they launched an internal investigation
- Another receptionist discovered discrepancies between income and deposits
- Plead guilty to second-degree theft
- 3 days in jail
- Restitution still being negotiated

Case Study – Patricia L. Long

- 59 years old
- Vancouver, WA
- No criminal history
- Allegations that she had embezzled from a previous employer
- Bookkeeper of BuilderNews Magazine
- Gambling problem



<http://www.echo-media.com/mediaDetail.php?ID=11023>

Long's Scheme

- Stole \$500,000 over a period of 5 years
- Company could not recover from thefts and was forced to close at the end of 2011, leaving 9 employees out of work

What Happened?

- Charged with first-degree identity theft and second-degree theft

Case Study – Wendy Murphy

- 50 years old
- Oak Harbor, WA
- Bookkeeper of two community associations
- Gambling problem

Murphy's Scheme

- Stole \$218,000
- Rolling Hills Glencairn Community Service
 - Bank called
 - \$20,000 in cash advances on a company card
 - Another \$30,000 missing from reserve fund
 - Pocketed water bill payments made in cash
- Hillcrest Village Water Company
 - \$168,000
 - Wrote checks to cover money stolen from Rolling Hills and credit card debt

What Happened?

- Ordered to pay Rolling Hills-Glencairn \$57,000
- Hillcrest Village Water Co lawsuit against Rolling Hills-Glencairn Community Service for \$61,000 it received from checks written on the Hillcrest Village account
 - Rolling Hills “knew or should have known” that the checks were not authorized and “failed to make reasonable inquiries”
- Murphy filed for bankruptcy on Oct. 21st, 2013

Case Study – Barbara Jo Ericsson

- Aka Barbara Jo Fulton
- 56 years old
- West Olympia, WA
- Bookkeeper of the Washington State Superior Court Judges' Association



<https://scja.us/>

Ericsson's Scheme

- Wrote at least 136 checks to herself, her son, and her husband's business
- Forged judges' signatures and altered the records to reflect legitimate business purchases
- Created a fake check register
- Stole \$451,909
- Over a period of 7 years
- Money came from judges' dues

What happened?

- Judge discovered discrepancies in SCJA's checking account
- An audit revealed funds missing
- Sentenced to 24 months in prison with 5 years supervised release
- \$451,909 restitution

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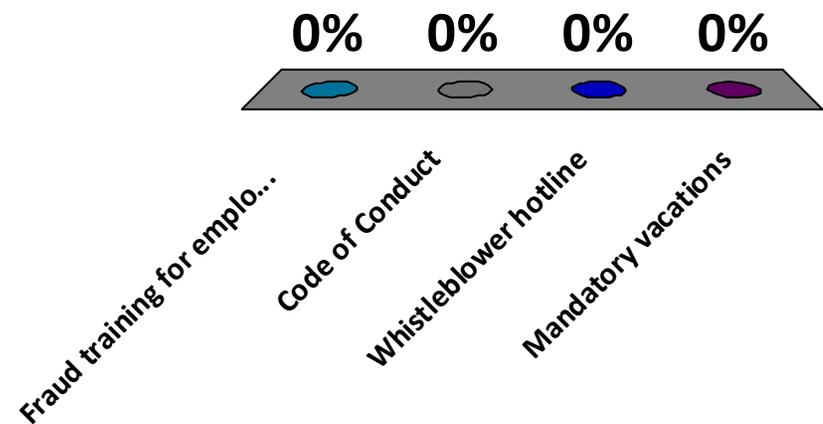
6. Preventing

Do tell me:

Which control is MOST effective in reducing loss due to fraud?

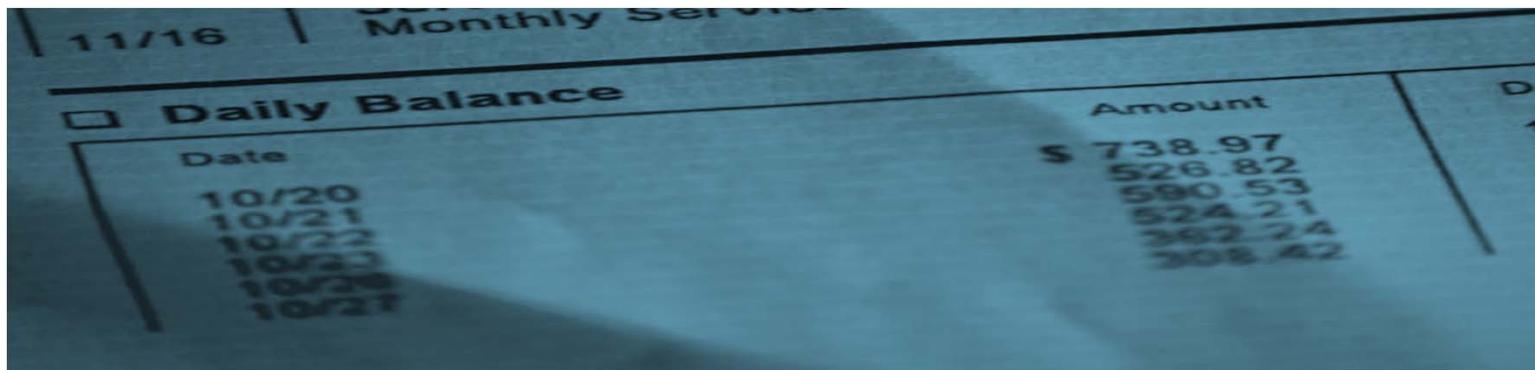


- A. Fraud training for employees
- B. Code of Conduct
- C. Whistleblower hotline
- D. Mandatory vacations



Cash Fraud Detection Measures

- Bank statements received unopened by mgr.
 - Review for unknown charges (ACH, wires)
 - Review checks for unknown payees (vendors)
 - Review checks for unusual endorsements
 - Note time lag in deposits reaching the bank



11/16 | Monthly Service

□ Daily Balance	
Date	Amount
10/20	\$ 738.97
10/21	526.82
10/22	580.53
10/23	524.21
10/24	362.24
10/27	308.42

Cash Fraud Detection Measures

■ Deposits

- Deposit slips – trend of cash vs. checks deposited
- Cash receipts reconciled to deposit slips
- Investigate complaints about ‘unpaid’ balance



Cash Fraud Detection Measures

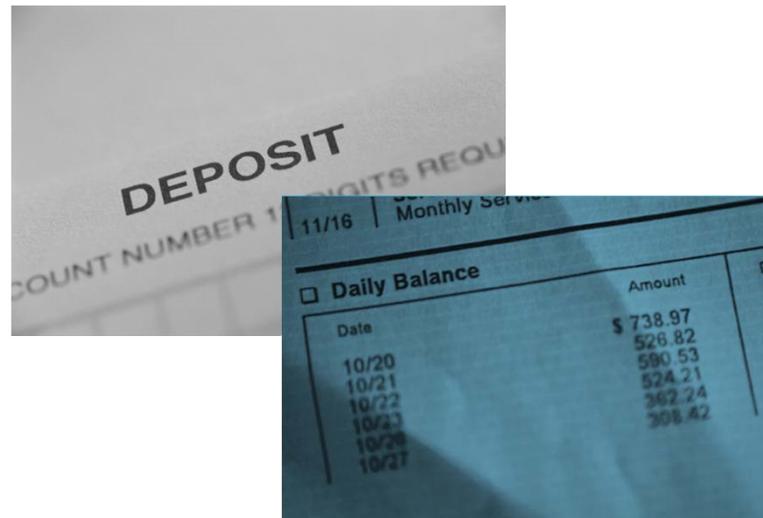
- Accounts Receivable
 - Unauthorized write-offs (credits)
 - Aged receivables
 - Decrease in revenues



Cash Fraud Detection Measures

- Bank Reconciliations

- Performed by an independent person
- Unusual entries to cash general ledger accounts
- Cross-outs, white-out, photocopies



What To Do

- Don't use suspect's computer(s)
 - Need to image the drives
 - Including: USB drives, cell phones, printers, voicemail, internet storage
- Use a Licensed Private Investigator (PI)
 - Organization auditor is not independent - fraud occurred during their watch
- Hire an attorney
 - Attorney-client privilege
 - Could be labor issues if employees dismissed improperly
- See 'Embezzlement Response Guide' at www.costadvisors.com

What To Do – Mobile Devices

- Leave it on, if it's on
- Leave it off, if it's off
- Collect all cables & batteries
- Place in a plastic bag, then wrap in foil



What To Do – Data in The Cloud

- Data on 3rd party computers:
 - E-mail
 - Documents
 - Applications
 - Social Network Info
- Organization sponsored – then get permission from Organization
- Personal – Stored Communications Act
 - Summary data vs. actual content
- Live data vs. deleted data

Fraud Vocabulary Quiz

Channel Stuffing

Left Blank Intentionally

Share Market Fraud

Left Blank Intentionally

Take-out

Left Blank Intentionally

Takeaways

- 5% of revenue, two years
- Types:
 - Corruption – largest organization losses
 - Misappropriation – accountant's favorite
- Watch out for 50-year-old male, divorced, accountant, with addiction problem, and a new sports car!
- Implement surprise audits, hotline, fraud training and reconciliations

For More Information

Cost Advisors, Inc.

503-704-3719

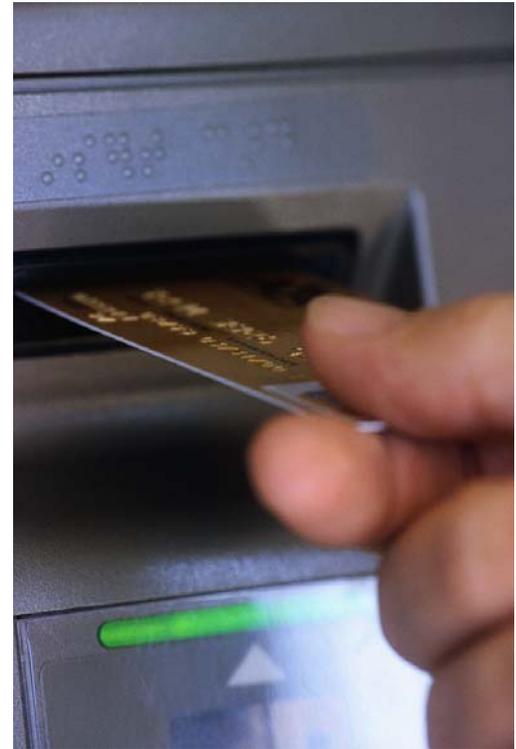
bill.douglas@costadvisors.com

www.costadvisors.com

Download: 'Embezzlement Response Guide'



Bonus Material



How to work with your Bank

Bank Anti-fraud Reliance

- Standard Procedures
- Enhanced Services

Standard Bank Procedures

- Signatures on checks
 - Signature Cards may be scanned
 - Teller will verify if presented at drawn bank
 - Not useful if presented at another bank or ATM
 - Banks don't check below a dollar threshold
 - Fees start at \$50 per month
- Electronic Transfers
 - Require a requester and approver
 - Templates can be changed by the requester

Enhanced Procedure - Positive Pay

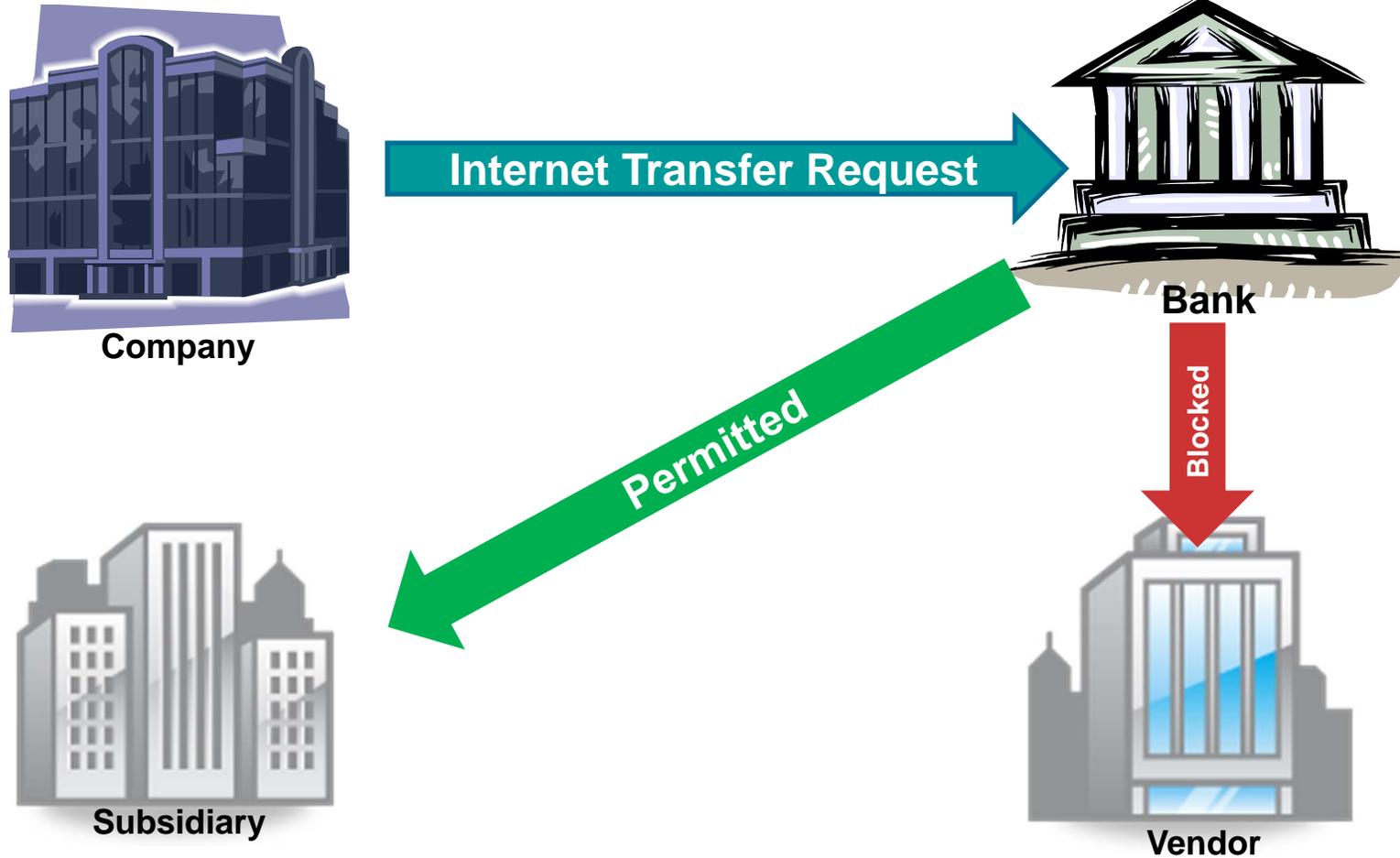
Starts at ~ \$65 per month



Source: Bank of the Cascades

Enhanced Procedure-ACH Filter (or Block)

Starts at ~ \$25 per month per account

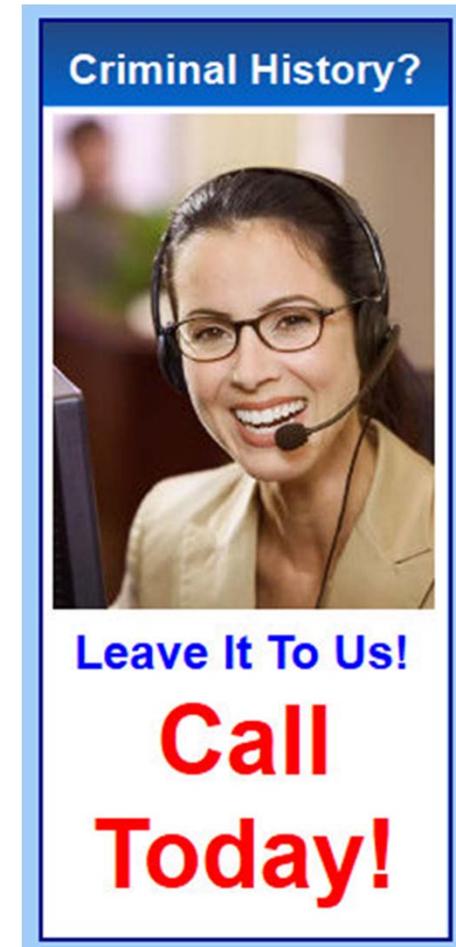


Source: Bank of the Cascades

It's easy to create a fake identity...

Fake References

- CareerExcuse.com
 - Job references
 - Landlord references
 - Starting at \$65
- TheReferenceStore.com
 - Resumes
 - Fake company websites
 - “We say, what you tell us to say!”



AlibiNetwork.com

Pricing Information for Alibi Services

Services	
Custom Alibis For Affairs	Depends on individual circumstances
Virtual Travel Agency	From \$175
Virtual Hotel Service	From \$175
Virtual Seminar/Training	From \$175
Worldwide Telephone and Fax	From \$175
Virtual Employment	From \$175
Virtual Doctor's Office	From \$175
Rescue Call Service	From \$75
Virtual Buddy	From \$75
Sensitive Matters	From \$75
Discreet Shopping	From \$35
Untraceable Phone Numbers	From \$75
Pretend You Are Anywhere	From \$75
Virtual Business/Office Phone Number	From \$75

Fake Receipt Makers

www.customreceipt.com

www.salesreceiptstore.com

- \$40 per receipt
- Choose all information
- ATM receipts
- Store receipts
- Hotel receipts
- Download templates



FakeDiplomaNow.com

- Order fake college diploma, transcripts, and degree cover for \$800
- Every major college



Fake IDs

- Play-i-d.com
 - \$100 per license
 - Any State
- YouFinishIt.com
 - Law Enforcement ID cards
 - State License cards
 - ID Badges & Folios
 - Custom cards

