



Do Good People Commit Fraud?

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Agenda

- Key Takeaways
- Overview of Fraud and the Perpetrators of Fraud
- Enabling Factors and Red Flags
- Case Studies
- Fraud Deterrence and Prevention
- Q & A
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Key Takeaways

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FORVIS is a trademark of FORVIS, LLP, registration of which is pending with the U.S. Patent and Trademark Office.

Key Takeaways

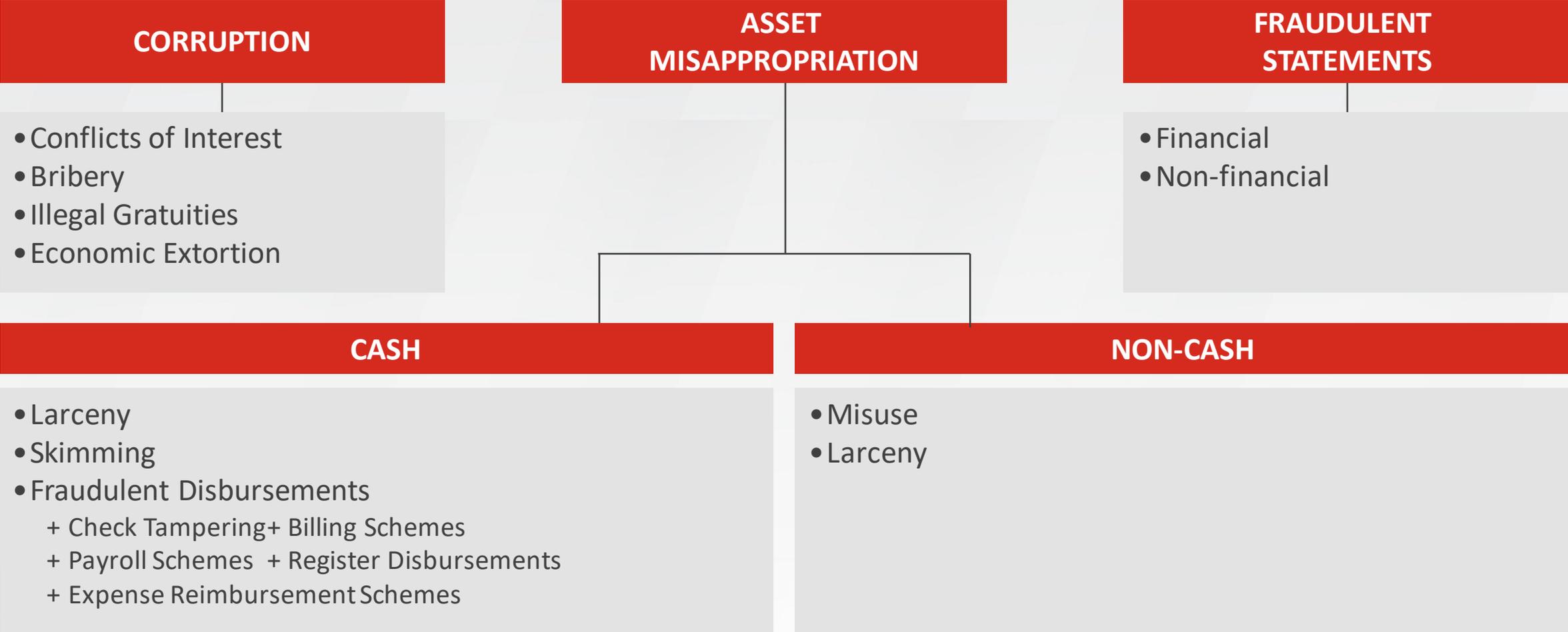
- Good people commit fraud
- Outside factors contribute to someone committing fraud
- An organization cannot control pressure/outside incentives and rationalization
- Fraud is most frequently detected by tips and proactive measures
- Controls protect the organization and employees
- Focus on perceived opportunities
 - Take the person out of the picture – TRUST IS NOT A CONTROL
 - Assess the ENVIRONMENT, not the person

Overview of Fraud and the Perpetrators of Fraud

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ACFE Occupational Fraud and Abuse Classification System



White Collar Criminals



Jeff Skilling – Former Pres. Enron



Charles Ponzi



Bernie Madoff



Linda Schrenko – \$600K
Former Superintendent
Georgia Schools



Deborah Newton -
\$750K from
Veterinary Hospital



Donald Guy Fuller
– \$562K over 13
yrs. NY School
Administrator;
Fictitious Vendor
Scheme



Diann Cattani -
\$500K over 4 yrs.
Prof. Services Com;
served 15 yrs.



Kenneth Kintsley -
\$300K over 3 yrs.;
Movie Theater
Manager; skimmed
daily receipts

Do good people commit fraud?

YES!

Business Partner

Friend

Business Advisor

Trusted Employee

Family Member

Trustee

- Understanding this is key to establishing awareness and deterrence to protect an organization and its employees

Criminal and Employment Backgrounds

FIG. 42 DO PERPETRATORS TEND TO HAVE PRIOR FRAUD CONVICTIONS?

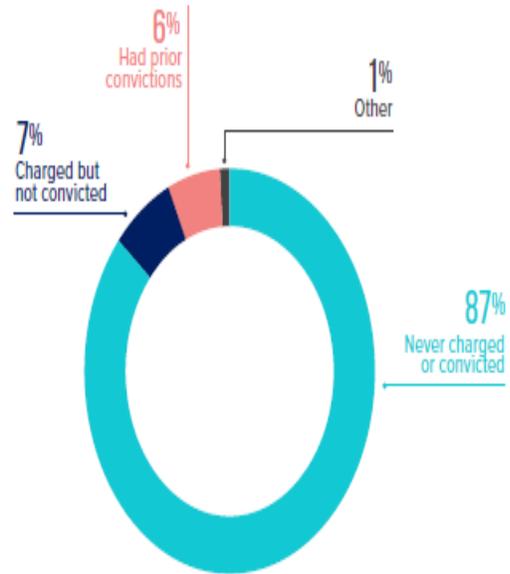
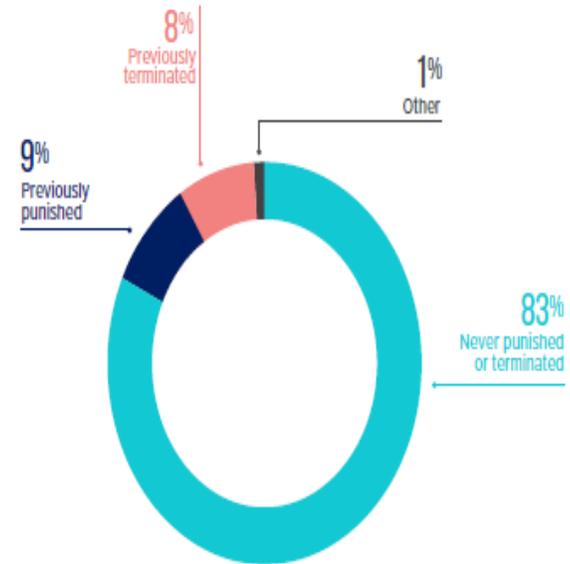
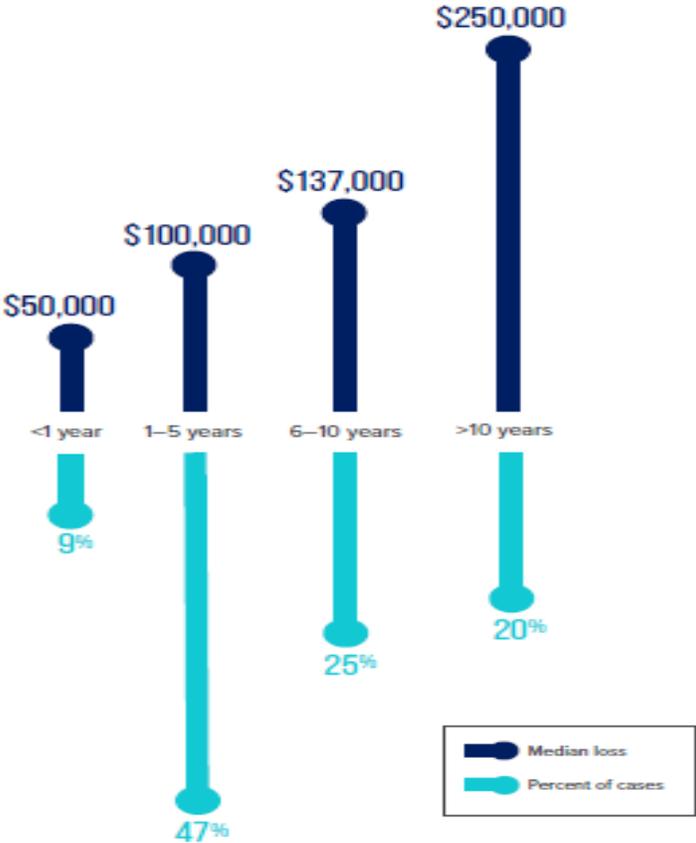


FIG. 43 DO PERPETRATORS TEND TO HAVE PRIOR EMPLOYMENT-RELATED DISCIPLINARY ACTIONS FOR FRAUD?



Tenure

FIG. 33 HOW DOES THE PERPETRATOR'S TENURE RELATE TO OCCUPATIONAL FRAUD?



Initial Detection of Occupational Frauds

FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

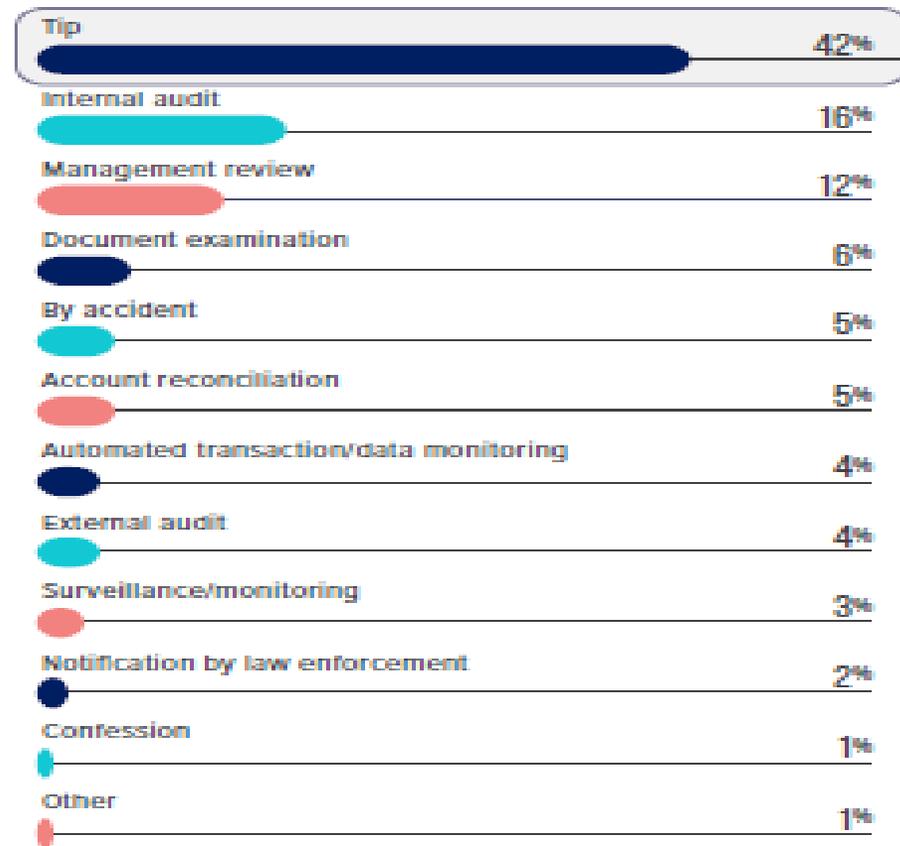
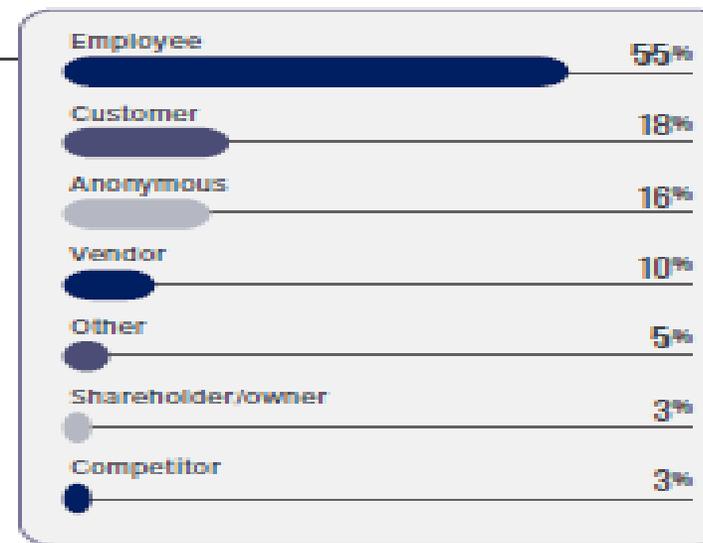


FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



Whistleblower Tip

Booz | Allen | Hamilton

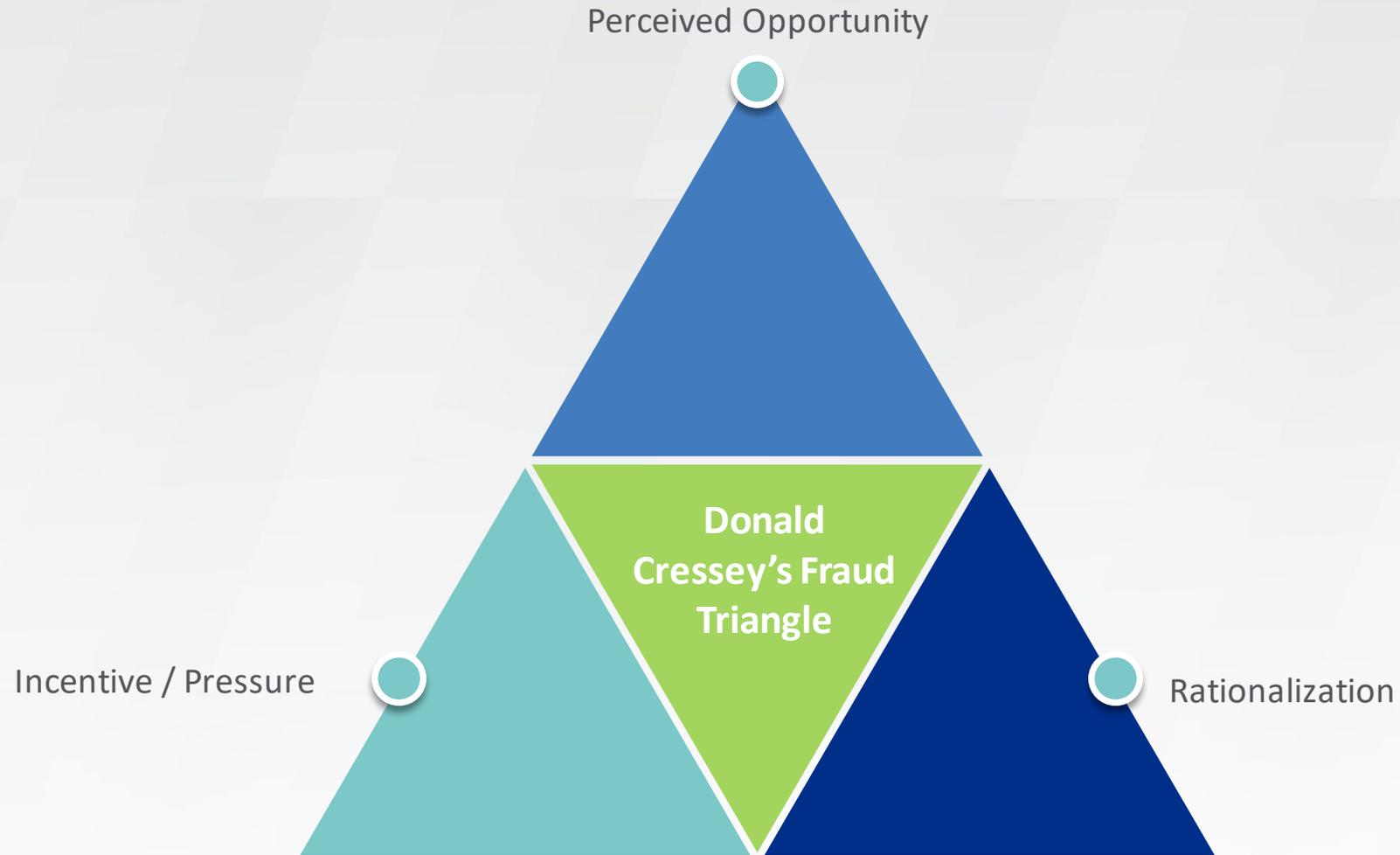
 NBC NEWS

Enabling Factors & Red Flags

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Enabling Factors



Pressures and/or Incentives

- Mid-life crisis
- Alcohol/drugs
- Gambling
- Financial difficulties
- Medical costs due to illness
- Work pressures
 - + To meet budgets
 - + To enhance bonuses

The Fraud Cycle



Case Study #1

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Dixon, IL

- Small town, \$16K residents 100 miles from Chicago
- Governed by part-time mayor and part-time commissioners
- Boyhood home of Ronald Reagan
- April 2012 news – Rita Crundwell, Comptroller, accused of embezzling \$53M, the largest municipal fraud in U.S. history



Lovely Rita Crundwell

- Worked for Dixon, IL for almost 30 years
- Owned 400 horses with a salary of \$80K
- Described as:
 - + Sweet as pie
 - + Couldn't find a nicer person on the face of the planet
 - + Nicest person to work for
 - + If you needed something she'd give it to you



Lavish Lifestyle

- State of the art horse facilities
- \$2.1M home
- \$259K horse trailer
- Second home in Florida
- Expensive jewelry
- Fur coats
- Etc.....

The Embezzlement

- \$53M over 22 years
- Started small and grew over the years
- Transferred funds to a fake bank account in the City's name
- Checks made payable to "Treasurer"
- Fake invoices for capital projects shown to auditors
- No segregation of duties
- When asked by the Commission about budget shortfalls, she said the state was late disbursing funds
- Caught by City Clerk while on extended vacation

Case Study #2

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City of Atlanta – Public Corruption Video 1



City of Atlanta – Public Corruption Video 2



Fraud Deterrence & Prevention

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Fraud Prevention Check-Up

- Oversight
 - + Board, Audit Committee, or other governance roles
- Ownership
 - + Responsible parties identified to manage fraud risks
 - + Communication to business units

Fraud Prevention Check-Up (cont.)

Assessment

- Ongoing process to identify fraud risks in functional areas

Tolerance and Management

- What risk is acceptable? Has it been approved?
- Avoidance, Acceptance, Sharing, Reduction

Process-level Controls and Re-engineering

- Basic controls (authorization, custody, recording)
- Controls can be costly, consider new processes

Fraud Prevention Check-Up (cont.)

Environmental-level Controls

- Top-down ethical culture
- Code of conduct
- Training
- Communication and reporting concerns
- Formal investigative process by cross-functional team

Proactive Fraud Detection Methods

- Proactive and Preventive > Reactive and Detective
- Leverage systems and exception reporting

Fraud Risk Assessment

- Overview / Benefits:
 - + 15 modules
 - + Identify potential inherent fraud risks
 - + Assess significance and likelihood of occurrence
 - + Evaluates areas most susceptible to fraud
 - + Maps existing controls to fraud risks
 - + Determines if controls are operating properly
 - + Identify ineffective or non-existent controls
 - + Respond to residual fraud risks

Fraud Risk Assessment – 15 Modules

Employee Assessment

Check Tampering Schemes

Theft of Inventory & Equipment

Management Assessment

Cash Register Schemes

Theft of Proprietary Information

Physical Controls

Purchasing & Billing Schemes

Corruption Schemes

Skimming Schemes

Payroll Schemes

Conflicts of Interest

Cash Larceny Schemes

Expense Schemes

Fraudulent Financial Reports

Fraud Risk Assessment (cont.)

Module 1: Employee Assessment (34 questions)

- Does the company have written policies and procedures for accounting and purchasing?
- Does senior management exhibit and encourage ethical behavior?
- Does the organization provide an anonymous way to report suspected violations of fraud, waste, and abuse?
- Are pre-employment background checks performed?
- Are the duties related to authorization, custody of assets, and recording or reporting of transactions segregated?
- Do employees feel they are treated and compensated fairly?

Fraud Risk Assessment (cont.)

Module 1: Employee Assessment (34 questions)

- Do any employees appear to be spending far more than they are earning?
- Do any employees resent their superiors?
- Do any employees have outside business interests that might conflict with their duties at the company?
- Is the company experiencing high employee turnover?
- Are employees required to take annual vacations?
- Does the company have unrealistic productivity measurements and expectations?
- Does the organization educate employees about the importance of ethics and anti-fraud programs?

Fraud Risk Assessment (cont.)

Module 2: Management Assessment (41 questions)

- Is the board of directors composed of mainly officers of the company or related individuals?
- Is the organization under pressure to report favorable earnings?
- Do any key employees have friends or relatives reporting directly to them?
- Do any key employees have outside business interests that might conflict with their duties at the company?
- Has the company recently experienced large operating or investment losses?

Fraud Risk Assessment (cont.)

Module 2: Management Assessment (41 questions)

- Does the company change auditors often?
- Does the company delay or avoid supplying auditors with the information necessary to complete the audits?
- Does the company have poor accounting records?
- Does the accounting department appear to be inadequately staffed?
- Does the organization lack an internal control system, or does it fail to enforce the existing internal controls?

How Does a Control Environment Manage Risk?

An effective system of internal control:

Provides accountability for achieving strategic objectives.

Promotes operational efficiency and effectiveness.

Improves the reliability of financial reporting to stakeholders.

Strengthens compliance with applicable laws and regulations.

Safeguards assets.

COSO Components

<p>COSO</p>	<p>▶ The COSO framework consists of 17 principles that support five components:</p>			
Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
<ul style="list-style-type: none"> ▶ Demonstrates commitment to integrity and ethical values ▶ Exercises oversight responsibility ▶ Establishes structure, authority and responsibility ▶ Demonstrates commitment to competent talent ▶ Enforces accountability 	<ul style="list-style-type: none"> ▶ Specifies clear objectives ▶ Identifies and analyzes risk ▶ Assesses fraud risk ▶ Identifies and assesses significant changes 	<ul style="list-style-type: none"> ▶ Selects and develops control activities ▶ Selects and develops general controls over technology ▶ Deploys control activities through policies and procedures 	<ul style="list-style-type: none"> ▶ Uses quality information ▶ Communicates internally ▶ Communicates externally 	<ul style="list-style-type: none"> ▶ Conducts ongoing and/or separate evaluations ▶ Evaluates and communicates deficiencies timely

What are Example of Control Activities?

Control activities occur at all levels and functions, in all organizations, and may include:

- Segregation of duties
- Authorization
- Reconciliation
- Review and approval
- Education and training
- Performance planning and evaluation

Questions



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