

**“Rather fail with
honor than succeed
by fraud.”**

—
SOPHOCLES

Fraud and Bad Actors

REAL LESSONS FROM OPERATIONS

*Get the perception and perspective
of the bad actor vs. just following
the money.*

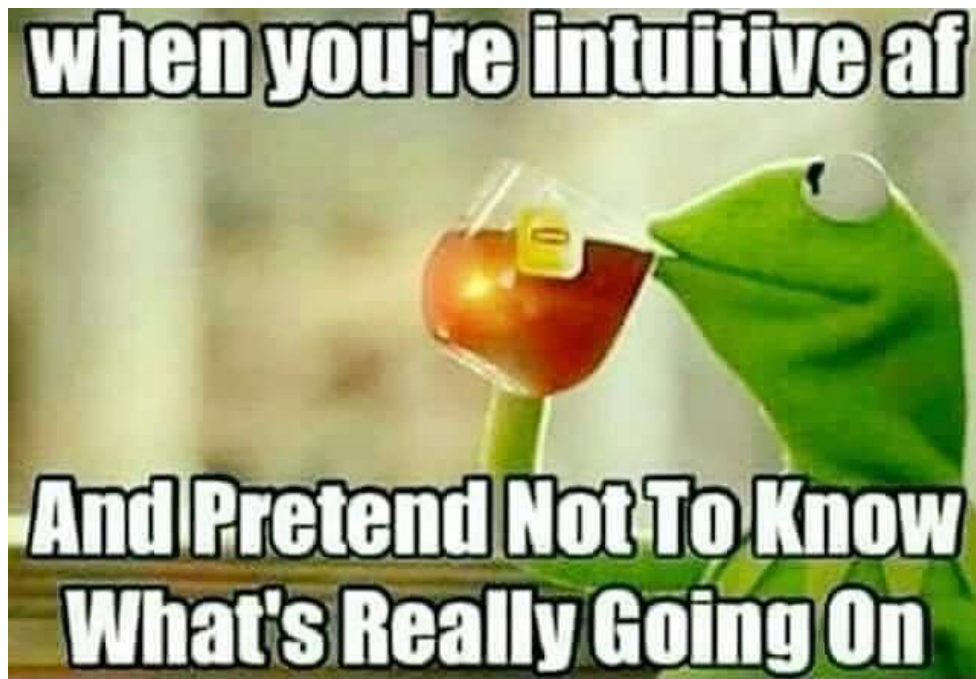
- KEVIN MCMAHON

How the event was discovered It Matters for your approach.

- **Hotline** – Amount of detail and communicating with the caller/emailer could effect how you approach.
- **Audit Test Work** – Error, omission, motivation and what could go wrong.
- **Management Review Request** – motivation should be part of the equation. Also, other items may surface – BE ON ALERT.
- **Bonus Round** – Interviews: TEST your skills!



Interview Techniques / Styles



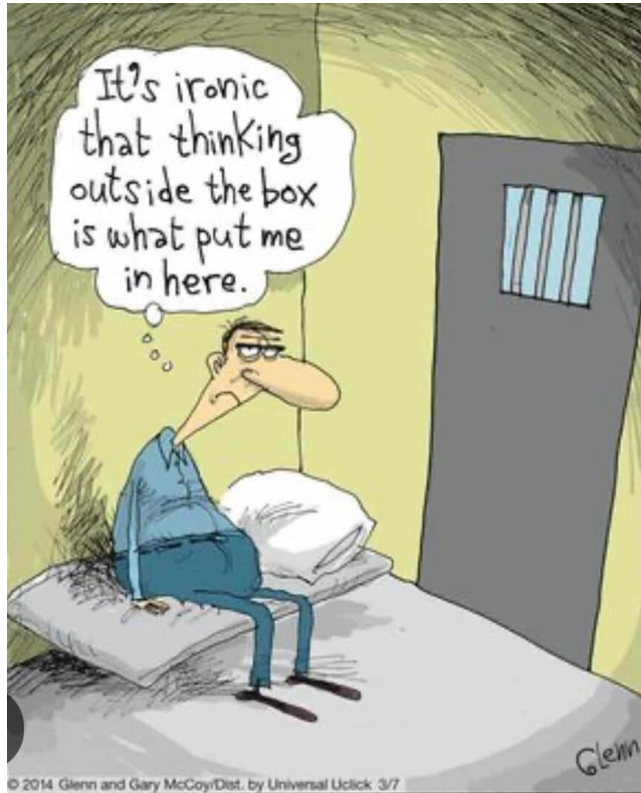
Techniques

- Lying vs Deceit – Good Morning welcome
- Don't be smart and well informed; be confused or slow so they feel superior.
- Show some “discovered items” and have them tell the story of what happened.
- Jump around your known facts if you have a timeline of events; Lies are linear vs Truth.
- Say comforting things like “I understand” “That makes sense” “Easier that way” even if they are starting to admit parts of the fraud.



- Make the interviewee comfortable. Have a “soft story” why you are asking questions vs here to investigate potential fraud.
- Examples:
- Offer the bribe to the auditor story
 - Asking the note taker if interviewee is stupid.

Bad Actors when caught will switch to be the victim



Motivation *(There is at least one)*



- Small error or theft that isn't noticed.
- Performance Pay model (CFO bonus model for month end example), “under paid or recognized”.
- Weak controls – plus No “perceived consequence” for others who take advantage.
- Vendors willing to “help” the employee have an easier job or achieve goals. (Rationalization)
- Life pressures beyond work.

Exiting the Interview



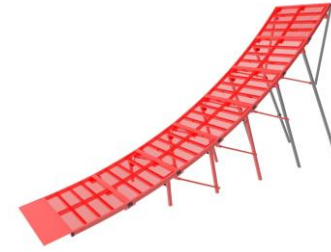
EXIT

Putting a bow on the interview



- Don't correct their lies, repeat back and confirm.
- Any rationalization given acknowledge
- Understanding their perspective vs your own will make their story "make sense"
- Sometime the only gain might be covering incompetence or lack of job effort. (inventory story)
- Using the fraudsters non linear story and comparing it to the data you have. Have them confirm individual parts of the story and you assemble at the end.
- Look for deflections and blame; managers get lunch with vendors, understaffed, (Freudian hydraulics)
- Make sure you have confirmed your facts and leave open that you might have to talk again.

Preparing the off ramp



- You should do interviews with two people note taker and listener and interviewer.
- Confer with HR on your expected outcome with data collected before interview.
- Don't be Judge and Jury. Consider yourself the fact finder in a passive role; thanks interviewee for time at end of interview. Don't get emotional.
- Plan for follow up from interview by interviewee; new documentation / evidence or deflected claims.

**THE CULTURE
OF ANY
ORGANIZATION IS
SHAPED BY THE
WORST BEHAVIOR
THE LEADER
IS WILLING
TO TOLERATE**

•••

Gruentzen and Whitaker

Questions

Some good reads:

- ✓ Telling Lies Clues to Deceit in the Marketplace, Politics, and Marriage– Paul Ekman
- ✓ Why They Do It - Eugene Soltes
- ✓ Fool Me Once – Kelly Richmond Pope

