

MOSS ADAMS LLP

April 12, 2011

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Organization Type of Victims  
2006 – 2008 - 2010

Private Co.: 36.8% \$210k – 39.1% \$278k – 42.1% \$231K  
 Public Co: 31.7% \$200k – 28.4% \$142k – 31.2% \$200k  
 Govt.: 17.6% \$100k – 18.1% \$100k – 16.3% \$100k  
 NFP: 13.9% \$100k – 14.3% \$109k – 9.6% \$90k

Median months to detection was 18 months  
except for financial statement fraud was 27  
months

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Construction Industry  
Statistics

Scheme	# of Cases	Percent
Corruption	35	45.5%
Billing	23	29.9%
Check Tampering	14	18.2%
Skimming	12	15.6%
Non-Cash	12	15.6%
Expense Reimbursement	10	13.0%
Payroll	7	9.1%
Larceny	7	9.1%
Financial Statement Fraud	4	5.2%
Cash on Hand	3	3.9%

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**MOSS ADAMS LLP** Objectives

At the end of the session you will be able to:

- Define fraud
- Understand the fraud diamond and how fraud occurs
- Identify the different types of internal controls
- Understand different fraud schemes
- Identify characteristics of a fraudster
- Identify ways to fighting and preventing fraud
- Understand what to do if fraud is detected

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**MOSS ADAMS LLP** Fraud Defined

A **dishonest and deliberate** course of action that results in the obtaining of money, property, or an advantage to which the employees or an official committing the action would not normally be entitled. **Intentional misleading** or **deceitful conduct** that **deprives** the organization of its resources or rights.

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**MOSS ADAMS LLP** Fraud Diamond

The diagram illustrates the Fraud Diamond model. It features a central light blue diamond. Surrounding the diamond are four colored boxes: a yellow box on the left labeled 'INCENTIVE or PRESSURE', a teal box on the right labeled 'RATIONALIZATION or ATTITUDE', and a purple box at the bottom labeled 'CAPACITY'. Above the diamond is a white box labeled 'CONTROLS'. A red arrow points from the right towards the 'CONTROLS' box.

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**MOSS ADAMS** Types of Controls

- Preventive
- Detective
- Corrective



Manual and automated

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**MOSS ADAMS** Preventive Controls

**Before** a transactions is entered

- Policies and procedures
- Spending limits
- Pre-approvals/required approvals
- Budgets
- Passwords
- Document control numbers
- Computer backups
- Job rotation
- Drug testing
- Good hiring practices

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**MOSS ADAMS** Detective Controls

**After** a transaction is entered/occurs

- Reconciliation
- Variance report
- Budget to actual
- Report / statement approvals
- Surprise cash count
- Counting inventory
- Event notifications

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**MOSS ADAMS LLP** Corrective Controls

**Consequences** put in place

- Correction of an error
- Change to P&P / Process redesign
- Training
- Modification to spending authority
- Loss of privileges
- Termination
- Litigation

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**MOSS ADAMS LLP** Consequences provide boundaries

Do  
You  
Drive  
The  
Speed  
Limit?



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**MOSS ADAMS LLP** Case: Construction Contract Management

- Contract not-to-exceed approx \$30 million
- List of qualified vendors
- Funds to be evenly distributed



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**MOSS ADAMS LLP** Sales & Receivables

- Unrecorded sales
- Understated sales
- False discounts



- Write-off
- Lapping
- Stolen statements

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**MOSS ADAMS LLP** Fixed Assets

- Improper bidding
- Misuse not stolen
- Property, plant, and equipment
- Indicators
  - High level of reported thefts
  - High level of reported damage
  - Assets cannot be located

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**MOSS ADAMS LLP** Fictitious Disbursements

- Check tampering schemes
- Purchase schemes
- Expense reimbursement fraud
- Payroll fraud

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**MOSS ADAMS LLP** Purchase Schemes

**Purchases can be real or phony and include:**

- Personal purchase with company funds
- False invoicing
- Altering existing purchase orders/requisitions
- Returning merchandise for cash

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**MOSS ADAMS LLP** Expense Account and Credit Card Fraud

**Reimbursing employees inappropriately for business expenses through:**

- Fictitious expenses
- Altered expenses
- Mischaracterized expenses
- Duplicate reimbursements

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**MOSS ADAMS LLP** Payroll Fraud

- Ghost employee
- Overpayment of wages
- Withholding tax schemes
- Bogus claims

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**MOSS ADAMS LLP** Financial Statement Fraud



Date	Amount
10/20	\$ 738.97
10/21	528.82
10/22	580.53
10/23	534.21
10/24	382.24
10/25	308.82
10/26	
10/27	

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**MOSS ADAMS LLP** Healthsouth:  
The Wagon to Disaster

- CFO Aaron Beam - 1984 to 1997
- In 2003, Healthsouth paid more money in taxes to the Federal Government than it legitimately earned the previous year.

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**MOSS ADAMS** Characteristics of a Fraudster



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**MOSS ADAMS** Characteristics of Employee Fraudsters

- Egotistical
- Risk taker
- Hard worker
- Greedy
- Disgruntled or complainer
- Overwhelming desire for personal gain
- Pressure to perform
- Inquisitive
- Ruler breaker
- Under stress
- Financially needy
- Big spender
- Close relationships with vendors/suppliers

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**MOSS ADAMS** By Gender – Who Commits More Fraud?



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**MOSS ADAMS LLP** ACFE Report Findings

Gender – Median Loss – 06/08/10

Male: 61.0% - \$250k  
 59.1% - \$250k  
 66.7% - \$232k

Female: 39% - \$102k  
 40.9% - \$110k  
 33.3% - \$100k


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**MOSS ADAMS LLP** By Age:  
Who Commits More Fraud?

Age & Frequency

- > 60
- 51-60
- 41-50
- 31-40
- 26-30
- < 26

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**MOSS ADAMS LLP** By Age:  
Who Commits More Fraud?

Demographic	2006	2008	2010
>60	2.8%	3.9%	2.2%
51-60	15.3%	18.9%	14.6%
41-50	34.6%	35.5%	33%
31-40	32.5%	29%	35.4%
26-30	8.8%	8.1%	9.6%
<26	6.1%	4.6%	5.2%


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**MOSS ADAMS LLP** White-Collar Criminal

- Likely to be married
- Member of a church
- Educated beyond high school
- No arrest record
- Age range from teens to older than 60
- Socially conforming
- Employment tenure from 1 to 20 years
- Acts alone 70% of the time.

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**MOSS ADAMS LLP**

Working Together To Fight Fraud



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**MOSS ADAMS LLP** Fighting Fraud

- Written and signed ethics policy
- Rules of conduct
- Assess risk
- Action plans
- Forensic accountant
- Select and promote staff on sound employment practices
- Establish a fraud hotline



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**MOSS ADAMS LLP** **ACFE Report to the Nation**

**Initial Detection of Occupational Frauds**

Tip: 34.2% - 46.2% - 40.2%

By Accident: 25.4% - 20.0% - 8.3%

Internal Audit: 20.2% - 19.4% - 13.9%


Internal Controls\*: 19.2% - 23.3% - 30.1%

External Audit: 12.0% - 9.1% - 4.6%

Notified by Police: 3.8% - 3.2% - 1.8%

Confession: - 1%

\* Mgmt review 15.4%, reconciliations 6.1%, document examination 5.2%, surveillance 2.6%, IT controls .8%




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**MOSS ADAMS LLP** **Percent of Tips by Source**

Source	Percentage
Employee	46%
Customer	10%
Anonymous	13%
Vendor	12%
Owner	5%
Competitor	2%
Perp's Acquaintance	2%

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**MOSS ADAMS LLP** **Preventing Employee Fraud**

- Institute a mandatory vacation policy or rotate assignments of employees who handle cash, payables, and receivables
- Observe and listen to employees ~ lifestyle changes

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**MOSS ADAMS** Lifestyle Probes:

Obvious lifestyle changes may indicate fraud

- Lavish residence
- Expensive cars and boats
- Vacation home
- Private schools for children
- Exotic vacations
- Jewelry
- Throwing money around



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**MOSS ADAMS** Behavioral Red Flags of Perpetrators

- Living beyond their means: 38.6% - 43.0%
- Financial difficulties: 34.1% - 36.4%
- Control issues – unwilling to share duties/train others: 18.7% - 22.6%
- Unusually close with vendors/customers: 15.2% - 22.1%
- Wheeler-Dealer attitude: 20.3% - 19.2%
- Divorce or family problems: 17.1% - 17.6%
- Irritability, suspiciousness/defensiveness: 13.6% - 14.1%
- Addiction problems: 13.3% - 11.9%
- Refusal to take vacations: 6.8% - 10.2%

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**MOSS ADAMS** Preventing Employee Fraud

- Supervisors should try to think like criminals
- Do not assume employees behave honestly
- Check employee references and resumes
- Use a positive pay system
- Use a lock box system
- Count cash at irregular intervals
- Beware of related parties
- Avoid check-signing machines and signature stamps

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**MOSS ADAMS LLP** Once Fraud is Detected

- Get the right people involved
  - Legal council - internal / external
  - Insurance carrier involved
  - Human resources
- Safeguard existing assets
- Quietly and confidentially gather evidence
  - Be careful not to 'tamper'
  - Leave the employee's computer alone
- Manage information on a need to know basis
  - Be careful of external communications
- Consider the consequences

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**MOSS ADAMS LLP** Questions ??

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