Risky Business

Building Partnerships to Fight Fraud

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Today’s Objectives

- Embezzlements - *The Cautionary Tale*
- The ZONE of Risky Business
- Fighting Fraud - *How To Be A Partner*
- Building Your Risky Business Tool Kit:
  - Fraud Risk Assessments
  - Hotline & Complaint Analysis
  - Proactive Fraud Identification and Monitoring
  - Discretionary Spending Reviews
  - Internal Fraud Workshops
Marquet International Ltd. does an annual white collar crime study on major embezzlement cases (> $100k):

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Cases</td>
<td>174</td>
<td>415</td>
<td>485</td>
</tr>
<tr>
<td>Average Loss</td>
<td>$2.2m</td>
<td>$1m</td>
<td>&lt;$1m</td>
</tr>
<tr>
<td>Median Loss</td>
<td>$500k</td>
<td>$387k</td>
<td>$350k</td>
</tr>
<tr>
<td>Female Perpetrators</td>
<td>60%</td>
<td>63%</td>
<td>64%</td>
</tr>
<tr>
<td>Prior Criminal History</td>
<td>3%</td>
<td>5%</td>
<td>4%</td>
</tr>
</tbody>
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Most common major embezzler is a woman in her 40’s to 50’s in a bookkeeping or finance position…
Embezzlements - *The Cautionary Tale*

Marquet Report on Embezzlements - 2010

**Number of Cases**

- **Executive**: 93%
- **Finance**: 66%
- **Manager**: 14%
- **Sales**: 4%
- **Human Resources**: 1%
- **Information Technology**: 1%
- **Vendor**: 0%

96.5% of the $’s > $451 million
Embezzlements - *The Cautionary Tale*

Marquet Report on Embezzlements - 2010

- Financial Problems: 2%
- Gambling Problems: 4%
- Desire to Live Lavishly: 27%
- Substance Abuse: 60%
- Support a Personal Business: 7%
Embezzlements - *The Cautionary Tale*

The Many Faces of Fraud
Embezzlements - The Cautionary Tale

The Many Faces of Fraud

Sujata ‘Sue’ Sachdeva
- 1997 to 2009 VP of Finance for Koss Corp. - >$200k a year
- Embezzled $34m through wire transfers, cashier’s checks, petty cash, manual checks and traveler’s checks
- Pled GUILTY to 6 felony counts – wire fraud – 11 years and full restitution

Melissa King
- 2002 to 2008 Benefits Fund Administrator for the Sandhogs Union - $540k a year (3 funds - <400 members)
- Transferred more than $42m into her personal account for personal use
- Indicted on 17 counts – money laundering, theft and embezzlement
Embezzlements - *The Cautionary Tale*

The Many Faces of Fraud

### Sachdeva

- **FY 2005:** 2,000,000
- **FY 2006:** 4,000,000
- **FY 2007:** 6,000,000
- **FY 2008:** 8,000,000
- **Q1 FY 2010:** 12,000,000
- **Q2 FY 2010:** 10,286,988

- **% of Pretax income:**
  - 2007 - 42%
  - 2008 - 69%
  - 2009 - 294%
  - Q1 2010 - 573%

### King

- **2002:** 0
- **2003:** 2,000,000
- **2004:** 4,000,000
- **2005:** 6,000,000
- **2006:** 8,000,000
- **2007:** 10,000,000
- **2008:** 12,000,000

- **% of King's Annual Fees:**
  - 2005 - 905%
  - 2006 – 1,322%
  - 2007 – 1,981%
  - 2008 – 1,723%

**Q1 and Q2 2010**

- $10,286,988
Embezzlements - *The Cautionary Tale*

The Many Faces of Fraud

**Ginger Lynn Lashley**
- 50
- A/P Clerk
- Jackson County Mississippi
- $890,827
- Set up a phony entity "The Jackson County Food Drive"
- 8 years

**George Timlin**
- 67
- Treasurer
- Crime Stoppers
- South Bend, Indiana
- > $100,000
- Wrote himself personal checks
- > 16 years

**Alan & Linda Roland**
- Both 55
- Treasurer & Asst Treasurer
- Way of the Cross Baptist Church, NC
- > $360,000
- Wrote 800 checks to themselves
- 3 years
Embezzlements - The Cautionary Tale

The Many Faces of Fraud

Ronald Partee
45
AVP - HR
Missouri Goodwill
$1,000,000
Wrote checks to bogus businesses to purchase Porsche and Luxury Goods
3.5 years

Douglas Zuber
51
Executive VP
Harvard Investments Inc.
Scottsdale, AZ
$11,000,000
Set up 7 fictitious vendors and sent phony bills
7 years

Maryann Williams
47
Volunteer Treasurer
Arizona HS Hockey Assn.
> $500,000
Used unauthorized checks and debit card to pay her personal bills
5 years
The ZONE of Risky Business

What is Fraud Risk?

The vulnerability an organization has to those capable of overcoming all three elements of the fraud triangle or all four elements of the fraud diamond is *FRAUD RISK*
The ZONE of Risky Business

What is the Zone of Risky Business?

Everything is NOT black or white - there are many shades of GRAY...

ZONE of RISKY BUSINESS
The ZONE of Risky Business

Every Business Has Them - *Do You Know Where Yours Is?*

- The business that you are in
- The environment in which you operate
- The ethics and values of your company and it’s people
- The effectiveness of the company’s internal controls
- The company's risk culture
The ZONE of Risky Business

The Business That You Are In

- Billing for services never rendered
- Overcharging for services
- Patient insurance scams
- Theft of product - employees & customers
- Check fraud
- Price swapping
- Vendor fraud
- Theft of cash - employees and customers
- Identity and information theft
- Forgery
The ZONE of Risky Business

The Environment in Which You Operate
The ZONE of Risky Business

The Environment in Which You Operate
The ZONE of Risky Business

The Company’s Risk Culture

Do the RIGHT thing?
or
Do WHATEVER it takes?

It is not JUST about the
Tone at the Top -
Tone in the MIDDLE?
Fighting Fraud - *How To Be A Partner*

‘I’m from the IRS and I’m here to help you!

To be treated like a partner you must **BE A PARTNER**

Words and Actions must be in **ALIGNMENT**
Fighting Fraud - *How To Be A Partner*

What level of influence do YOU have?

When you speak - what do they HEAR?

You can only influence people that will listen to you
Fighting Fraud - *How To Be A Partner*

Lessons to live by - FFF

- **FIRM**
- **FAIR**
- **FRIENDLY**

"How dare you accuse me of sinking this company!"
Fighting Fraud - *How To Be A Partner*

R.E.S.P.E.C.T.

- Know YOUR Zones of Risky Business
- Gain alignment and build AWARENESS
- Find STRONG Sponsors, Supporters and Advocates
- Speak the LANGUAGE of the BUSINESS
- Do GREAT work!
Fighting Fraud - *How To Be A Partner*

Know YOUR Zones of Risky Business

Be the EXPERT!

- Current and Not-So-Current Events
- Water Cooler Talk
- Beware of Oniomaniacs, Egomaniacs, Kleptomaniacs….
- Network, Network, Network!
Fighting Fraud - *How To Be A Partner*

**No Fraud is NEW Fraud**

Learn about schemes that you are not familiar with

Can this happen here? Why? OR Why Not?

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**Welcome to Google Alerts**

Google Alerts are email updates of the latest relevant Google results (web, news, etc.) based on your choice of query or topic.

Some handy uses of Google Alerts include:

- monitoring a developing news story
- keeping current on a competitor or industry
- getting the latest on a celebrity or event
- keeping tabs on your favorite sports teams

Create an alert with the form on the right.

You can also [click here to manage your alerts](#)

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**Create a Google Alert**

Enter the topic you wish to monitor.

- **Search terms:**
- **Type:** [Comprehensive](#)
- **How often:** [once a day](#)
- **Email length:** [up to 20 results](#)
- **Deliver to:** [bethmaratfrag@aol.com](mailto:bethmaratfrag@aol.com)

[Create Alert](#)

Google will not sell or share your email address.
Fighting Fraud - *How To Be A Partner*

No Fraud is NEW Fraud

- ACFE Website, Fraud Magazine, FI-Newsletter
- Fraud Talk - [http://fraudtalk.blogspot.com/](http://fraudtalk.blogspot.com/)
- FBI White Collar Crime Site - [http://www.fbi.gov/whitecollarcrime.htm](http://www.fbi.gov/whitecollarcrime.htm)
- Local and National Newspapers
- Old Stories are Good Stories
Did you see that fancy new car Joe is driving? I wonder how he can afford it!

And Jane - A brand new outfit every day! Never wears the same thing twice!

I heard that Sally took her husband and kids on that business trip. I would love to see her T&E!

Oh - and Steve that IT guy- he keeps talking about how easy it is to access the payroll system!
Fighting Fraud - How To Be A Partner

Gain Alignment and Build AWARENESS

- TALK about FRAUD - What it can and does look like in YOUR company

- Develop ways of keeping people informed:
  - Share RELEVANT current and not-so-current events
  - Provide Tips and Lessons Learned
    - Newsletters
    - Intranet Site
  - Lunch and Learn Roundtables
Fighting Fraud - How To Be A Partner

Sponsors, Supporters and Advocates

Who Are You? - remember that not everyone knows!

Friends and family may love you - Just The Way You Are - but…

Strained relationship - don’t be afraid - ASK: Where Did Our Love Go?

I’m So Lonesome I Could Cry - should not be your theme song
Fighting Fraud - *How To Be A Partner*

Sponsors, Supporters and Advocates

If we are together nothing is impossible. If we are divided all will fail - *Winston Churchill*
Fighting Fraud - How To Be A Partner

Speaking the LANGUAGE of the BUSINESS

It’s not always WHAT you say - it’s HOW you say it!
Fighting Fraud - How To Be A Partner

Speaking the LANGUAGE of the BUSINESS

It’s not always WHAT you say - it’s HOW you say it!
Fighting Fraud - How To Be A Partner

Speaking the LANGUAGE of the BUSINESS

How the customer explained it
How the Project Leader understood it
How the Analyst designed it
How the Programmer wrote it
How the Business Consultant described it

How the project was documented
What operations installed
How the customer was billed
How it was supported
What the customer really needed
Fighting Fraud - *How To Be A Partner*

**Speaking the LANGUAGE of the BUSINESS**

**Focus On What REALLY Matters!**

**WHAT DO YOU WANT ME TO KNOW?**

- Objective
- Simple
- MOST Important
- BIGGEST Impact

**WHY SHOULD I CARE?**

**WHAT DO YOU WANT ME TO DO ABOUT IT?**
Fighting Fraud - How To Be A Partner

Do GREAT work!

Delight and Wow!

No same old, same old….they STOP paying attention
What KIND of PARTNER Are YOU?
Building Your Risky Business Tool Kit

A Toolkit is ONLY as Good as the Tools IN IT!

- Fraud Risk Assessments
- Hotline and Complaint Analysis
- Proactive Fraud Identification and Monitoring
- Discretionary Spending Reviews
- Internal Fraud Prevention Workshops
Building Your Risky Business Tool Kit

Fraud Risk Assessments

• Power tool of your Risky Business tool kit

• Balance your assessment between Culture and Controls:
  - How the organization and it’s people behave or are perceived to behave
  - What mechanisms the organization has in place to prevent or detect bad things

• Keep it SIMPLE and Package it RIGHT!
Find partners in the business to lend expertise and support – openly promote the process

Use a methodology and framework that is culturally RIGHT for YOUR business

Use it to begin a dialogue across the Company:

- Bring clarity to things that are unclear
- Emphasize the positive
Building Your Risky Business Tool Kit

Hotline and Complaint Analysis

Do Employees TRUST the System?

SHOULD THEY?
Building Your Risky Business Tool Kit

The DEVIL is in the Details!

The quality of a complaint is only as good as the information CAPTURED

‘I am calling to report something that just doesn’t seem right. I work in the Accounting Department. Over the last few months my boss, Carey Robashank, asked me to make some journal entries with no back up and they just don’t make sense…’
The quality of a complaint is only as good as the information CAPTURED

Caller: Unknown
Department Involved: Unknown
Person(s) Involved: Larry Rollerrink
Witnesses: None
Complaint: Boss asked CALLER to do something she wasn’t comfortable with
Check The Quality of Reporting Systems

- Review complaint documentation and databases
- Test the systems
- Scrutinize complaints that are never investigated
Ensure you have a reasonable understanding of:

- How complaints can be raised – *what is bypassing the hotline?*
- Protocols for notification and investigation of complaints – *are the right people involved and in the know?*
- How quality control of the overall process is assured – *is it?*
- Protocols for determining the outcome and consequences of the investigation – *is there consistency?*
Building Your Risky Business Tool Kit

Connect the Dots

Look for Common Elements and PATTERNS

- VENDORS
- ACCOUNTS
- PEOPLE
- DIVISIONS
- CUSTOMERS
- LOCATIONS
- REGIONS
- DEPARTMENTS
# Building Your Risky Business Tool Kit

## Connect the Dots

Look for Common Elements and PATTERNs

<table>
<thead>
<tr>
<th>Attribute 1</th>
<th>Attribute 2</th>
<th>Attribute 3</th>
<th>Attribute 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Complaint 1</strong></td>
<td>Marketing</td>
<td>Gift from Vendor</td>
<td>ABC Corp.</td>
</tr>
<tr>
<td><strong>Complaint 2</strong></td>
<td>Finance</td>
<td>General Ledger</td>
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<tr>
<td><strong>Complaint 3</strong></td>
<td>Sales</td>
<td>Gift from Vendor</td>
<td>Star Corp.</td>
</tr>
<tr>
<td><strong>Complaint 4</strong></td>
<td>Finance</td>
<td>General Ledger</td>
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</tr>
<tr>
<td><strong>Complaint 5</strong></td>
<td>Finance</td>
<td>Cash Account</td>
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<tr>
<td><strong>Complaint 6</strong></td>
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<td><strong>Complaint 7</strong></td>
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<tr>
<td><strong>Complaint 8</strong></td>
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<tr>
<td><strong>Complaint 9</strong></td>
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Provide regular analyses with actionable recommendations
Building Your Risky Business Tool Kit

Proactive Fraud Identification & Monitoring

Purpose: *To proactively identify those places in the business where fraud, waste or abuse is most likely to be occurring and determine if it is or if it is not.*

Objectives

- To identify the places where fraud, waste or abuse are most likely to occur in the business
- To identify unusual activity that might potentially be an indicator of fraud, waste or abuse
- To evaluate and investigate patterns of unusual activity to determine if fraud, waste or abuse has occurred or if everything is really okay
- To work with the appropriate business partners to investigate and determine the appropriate outcome of the work
Stakeholder Benefits

- To give the Audit Committee a sense about:
  - High level view of work you performed
  - Anything significant they should be aware of including good messaging around what is working well
- To give the General Council (and possibly HR partner under GC direction):
  - Well documented set of facts and evidence
- Leadership Team:
  - Assessment of the risks and vulnerabilities tested/evaluated under our scope of work
  - Themes trends and analyses they should care about (potentially including benchmarks for context)
  - Lessons learned and any messaging needs
  - Things that need to be actioned
Building Your Risky Business Tool Kit

Discretionary Spending Reviews

- Profile the discretionary spending of departments across the company – Triangulate A/P, T&E and P-Cards
- Use technology to facilitate the review
- Look deeply into expenses that hit accounts or categories with the words ‘miscellaneous’ or ‘other’
- Scrutinize the backup:
  - Transactions that are odd (time, frequency, places, amount, sequence)
  - Descriptions that are too general or illogical
  - Document alterations
- Don’t ignore or rationalize red flags - trust YOUR gut!
- Create the WALK of SHAME!
Building Your Risky Business Tool Kit

Discretionary Spending Reviews

[Bar chart showing discretionary spending across different categories and departments.]
Make it REAL!
- Show folks what it looks like in YOUR company
- Let fraudsters know that you are on to THEM
- Keep the dialogue GOING….

I know that happens in other places but that can’t happen here!