

GUARDIANS OF THE FINANCE GALAXY

THE 2019 CSMFO ANNUAL CONFERENCE

Don't be a Victim of Fraud: Profile of Perpetrator

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Harriet Richardson, City Auditor, City of Palo Alto

Mark Cousineau, Director, MGO CPAs and Advisors



Don't be a Victim of Fraud:

Profile of a Perpetrator



Presenters

Harriet Richardson is the **Palo Alto City Auditor** and has 28 years of experience as a performance auditor at the federal, state, and local levels of government. She is a Certified Public Accountant, Certified Internal Auditor, Certified Government Audit Professional, and Certified in Risk Management Assurance.

Dr. Peter Hughes, MBA is a highly experienced executive who is the **Assistant Auditor-Controller for Los Angeles County**. He is a Certified Public Accountant, Certified Internal Auditor, Certified Fraud Examiner, Certified Information Technology Professional, and Certified Compliance & Ethics Professional. Peter's past positions include Performance Audit Director, and Director of Internal Audit for Orange County as well as the Director of Internal Audit for Caltech, NASA's Jet Propulsion Lab, and for the Oregon University System.

Mark Cousineau has more than 25 years of internal and external California government accounting and auditing experience. He is a Certified Public Accountant, Certified Internal Auditor, Certified Fraud Examiner, Certified Information Technology Professional, Certified Government Audit Professional, Certified Government Financial Manager, Chartered Global Management Accountant, and Certified in Risk Management Assurance. Mark is a Director for **MGO CPAs and Advisors** State & Local Government practice.

Don't be a Victim of Fraud:

Profile of a Perpetrator

Agenda

Fraud Review— Types, Risks, Internal Control Requirements

Fraud Models

Fraudster Profile

Internal Control – Objectives and Segregation of Duties

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Profile of a Perpetrator

Fraud Review - Types

Financial Statements

- Overstatements of Net Income
- Understatements of Net Income

Corruption

- Bribery / Illegal Gratuities
- Conflict of Interest
- Economic Extortion

Asset Misappropriation

- Cash
- Inventory and Other Assets

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Profile of a Perpetrator



Fraud Review - Risks

RISKS

- Public Good
- Operational Failure
- Audit Risk – Audit Failure
- Regulatory
- Reputation
- Reporting

Don't be a Victim of Fraud:

Profile of a Perpetrator

Fraud Review – Internal Control Requirements

Risk Assessment - COSO 2013, Principle 8

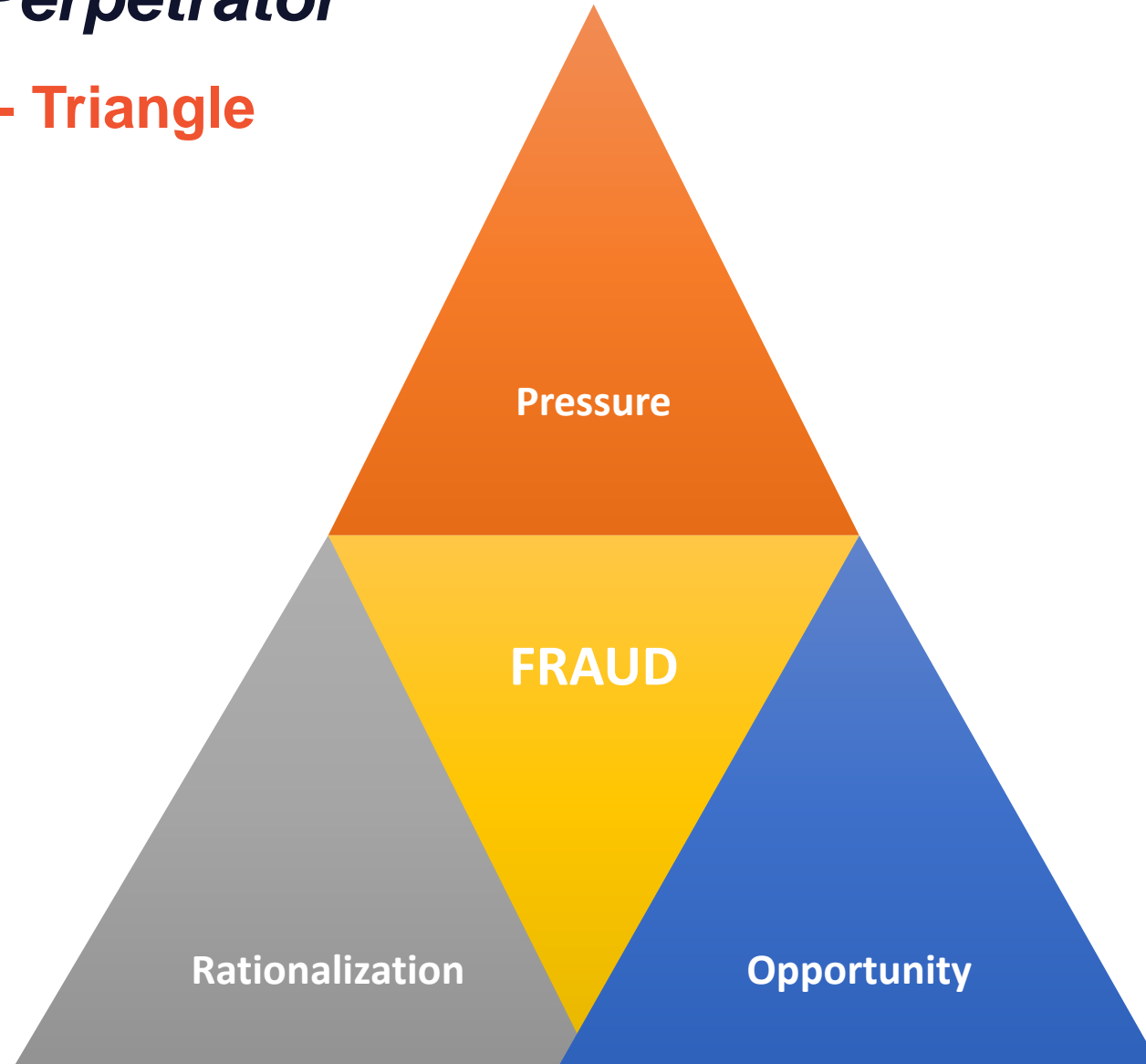
8 The organization considers the potential for fraud in assessing risks to the achievement of objectives.

<https://www.coso.org/Documents/COSO-ICIF-11x17-Cube-Graphic.pdf>

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Profile of a Perpetrator

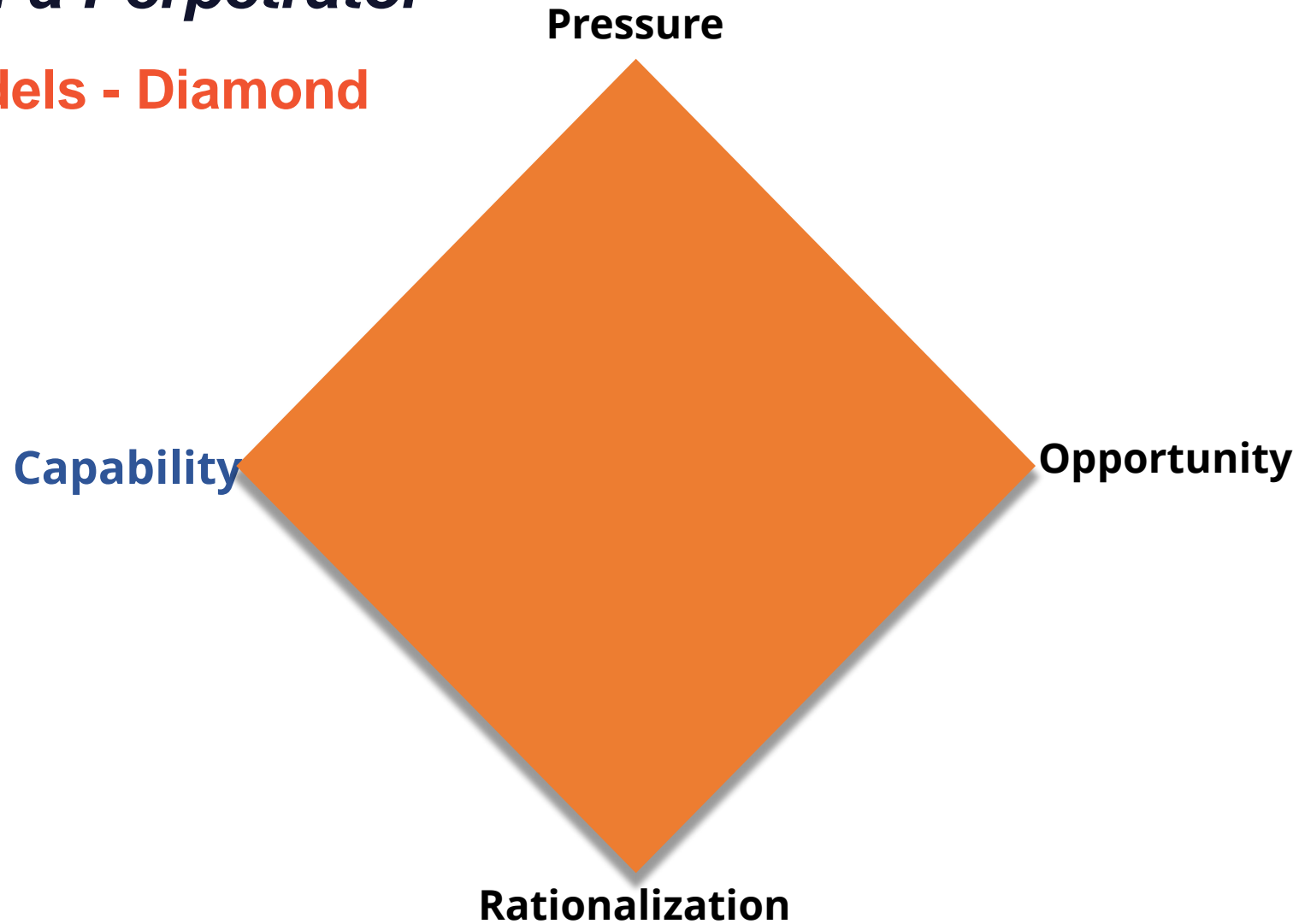
Fraud Models - Triangle



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Profile of a Perpetrator

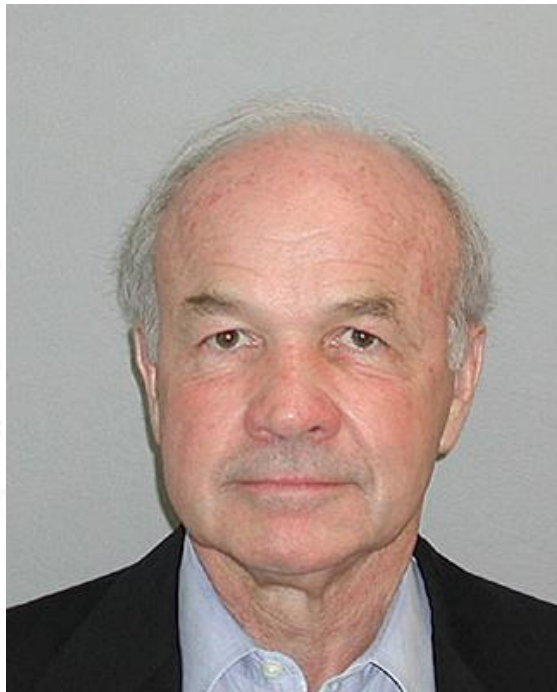
Fraud Models - Diamond



DAVID WOLFE AND DANA HERMANSON (*Developers/Authors*)

Don't be a Victim of Fraud: *Profile of a Perpetrator*

Fraud Models - Diamond Capability



Don't be a Victim of Fraud:

Profile of a Perpetrator

Fraudster Profile

GENDER



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Profile of a Perpetrator

Fraudster Profile

AGE

Born: 1973 – 1982

Age: 36 – 45

38%
Of Cases

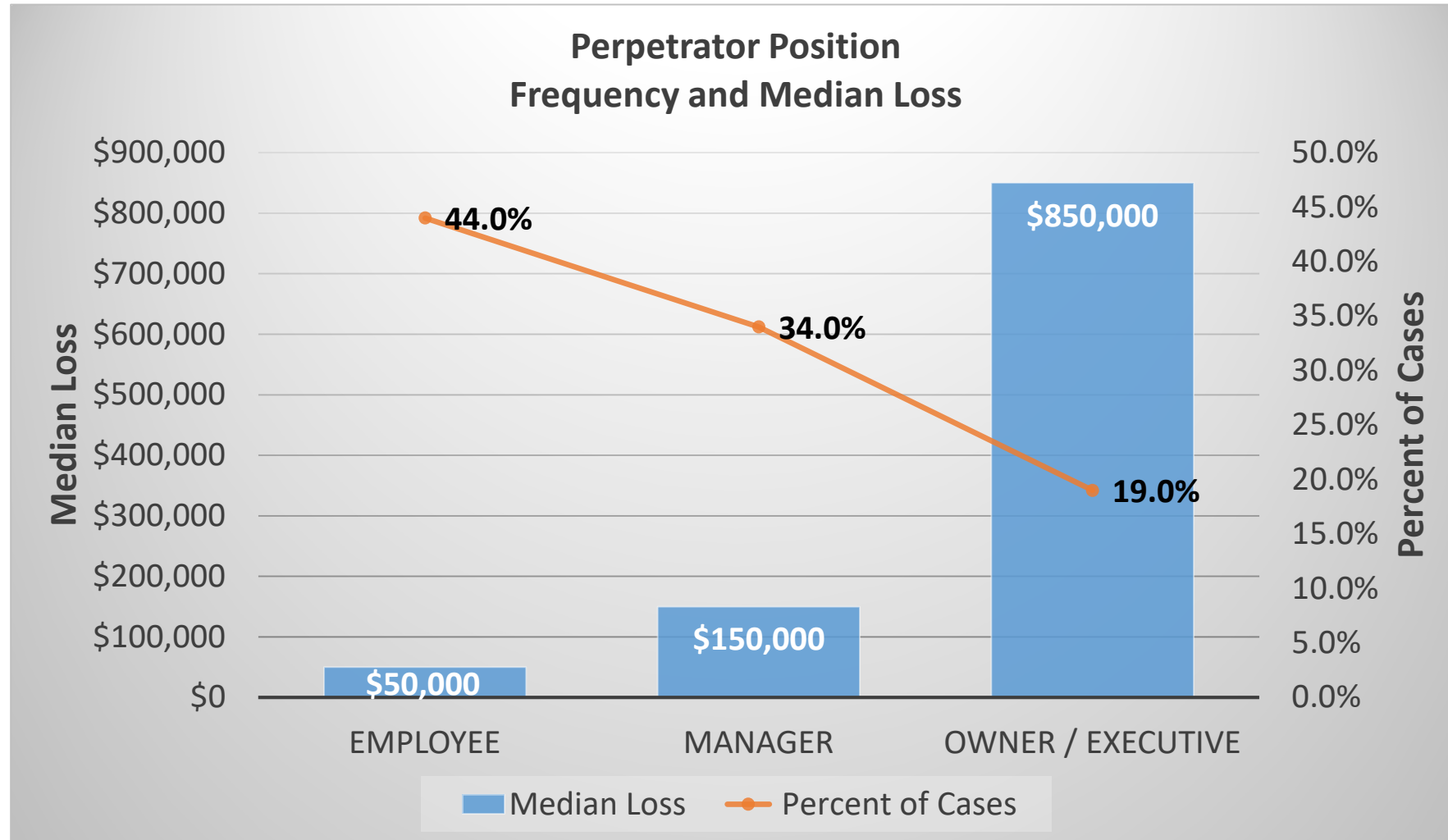


Don't be a Victim of Fraud:

Profile of a Perpetrator

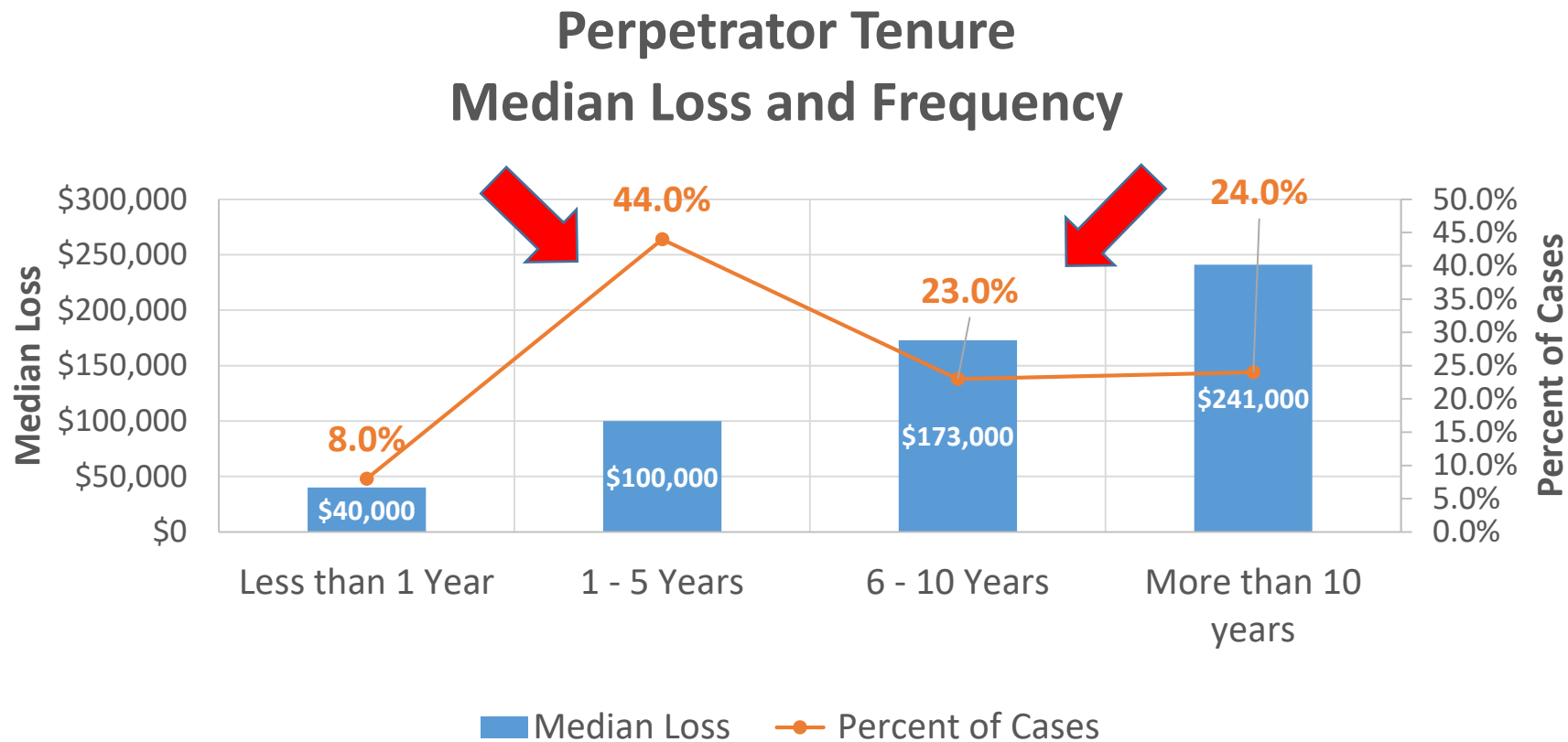
Fraudster Profile

POSITION



Don't be a Victim of Fraud: Profile of a Perpetrator

Fraudster Profile TENURE



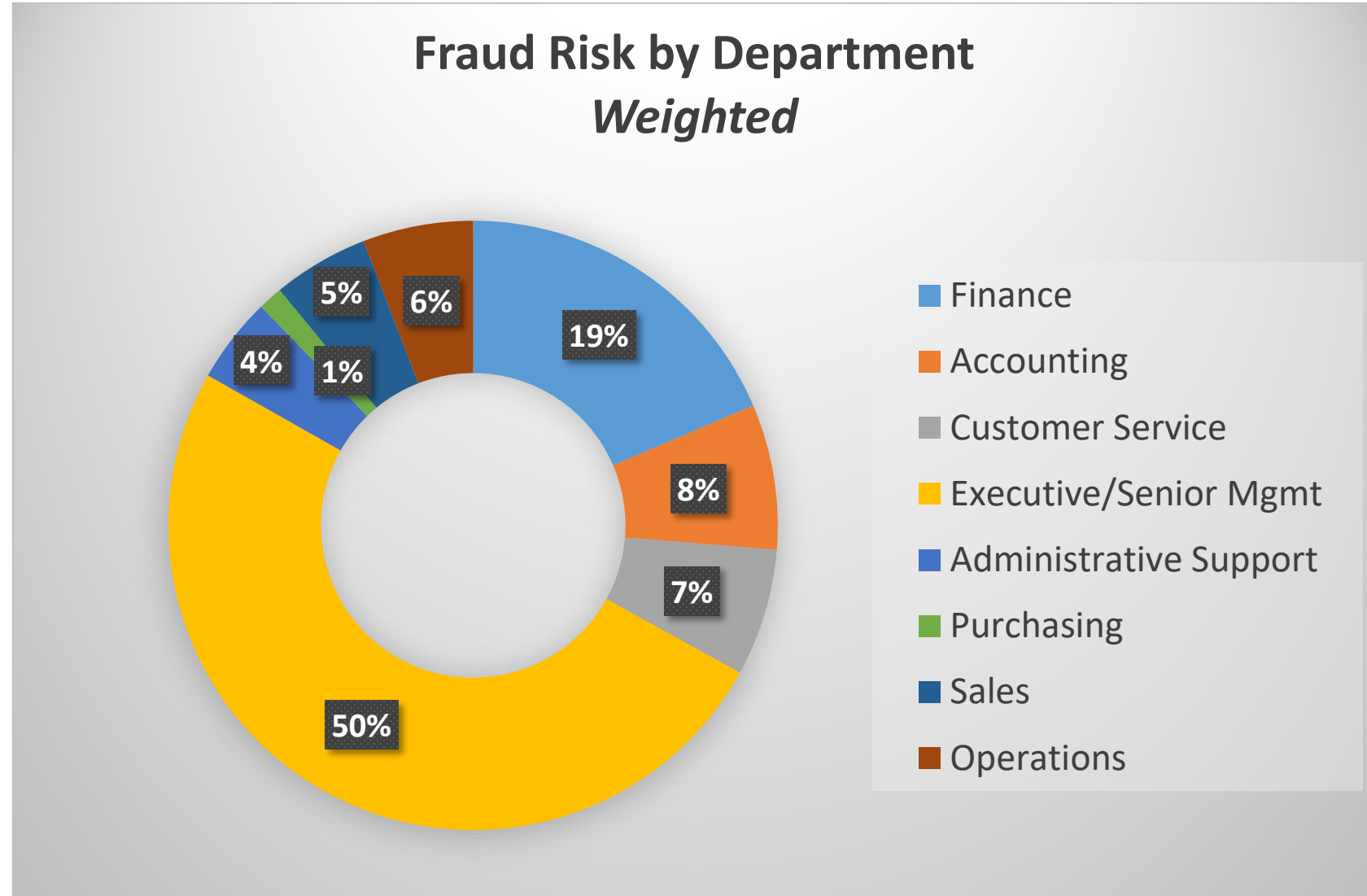


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Profile of a Perpetrator

Fraudster Profile

DEPARTMENT





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Profile of a Perpetrator



Fraudster Profile - Summary

Dimensions

- Gender
- Age
- Position
- Tenure
- Department

Highest Frequency

- | | |
|-----------------|-------------------------|
| • Male | • Female (51%) |
| • 36 – 45 Years | • 48 Years |
| • Employee | • Employee |
| • 1 – 5 Years | • 1 – 5 Years |
| • Accounting | • Finance or Accounting |

ACFE 2018

HISCOX 2017

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Profile of a Perpetrator

Fraudster Profile - Characteristics

Hiscox

- Intelligent and curious
- Extravagant
- Egotistical risk-taker
- Diligent and ambitious
- Disgruntled

<https://www.hiscox.com/documents/2017-Hiscox-Embezzlement-Study.pdf>

Red Collar Criminals

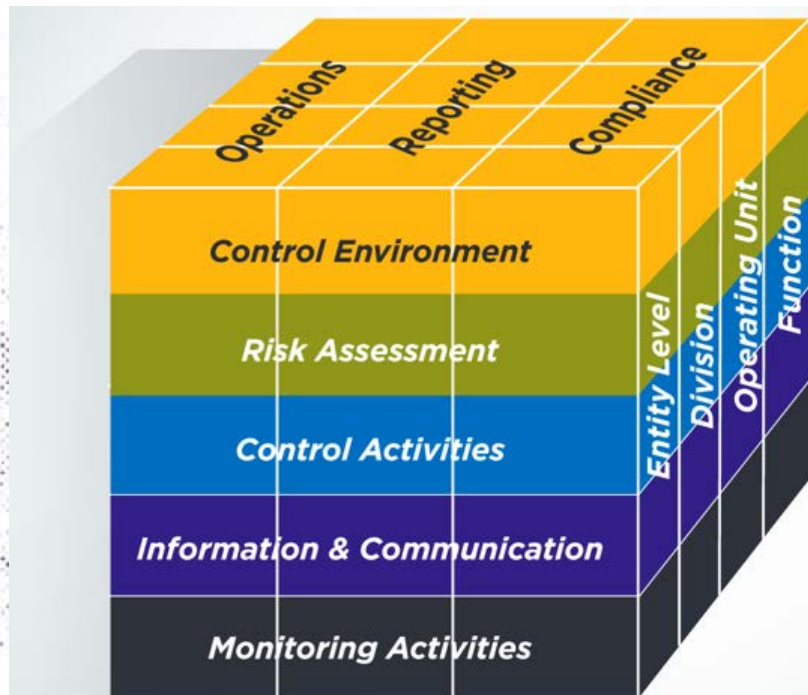
- Superficial charm
- Lack of remorse
- Manipulative
- Irresponsibility
- Pathological lying
- Grandiosity
- Impulsivity/spontaneity

Perri, F. S., & Lichenwald, T. G. (2007, July/August). When White-Collar Turns Red, Part Two. Fraud.

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Profile of a Perpetrator

Internal Control - Objectives



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Operations

- Efficiency
- Effectiveness
- Economy

Safeguarding

- **Assets (*misappropriation*)**
- Citizen expectations

Reporting

- **Financial**
- Non-financial

Compliance

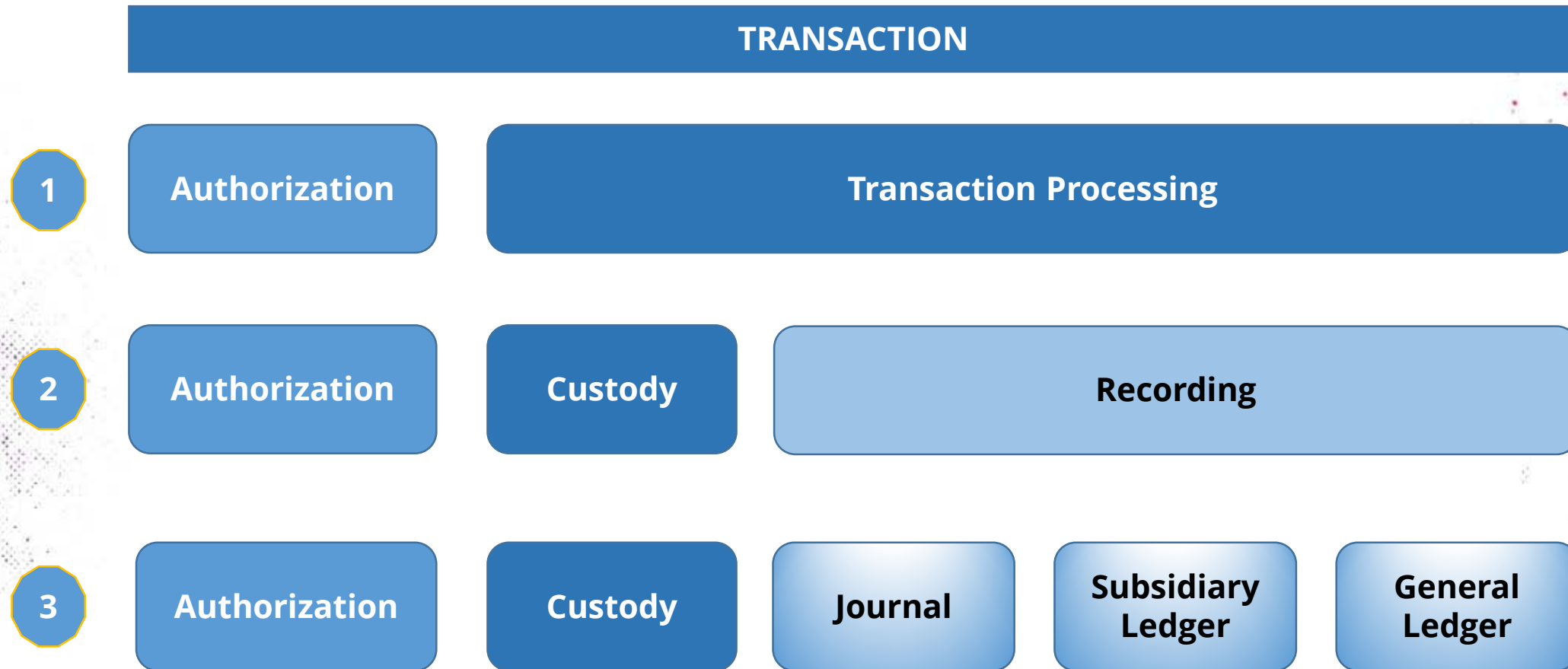
- Laws, judgments
- Agreements



Don't be a Victim of Fraud:

Profile of a Perpetrator

Internal Control – Segregation of Duties





Don't be a Victim of Fraud:

Profile of a Perpetrator

Internal Control – Segregation of Duties

1. Custody/access separate from recording function
2. Reconciliation (with management review)
3. Separate management reviews

Role 1

- Approval
- **Custody/Access**

Role 2

- **Recording**
- Reconciliation

Questions?
Let's Talk.



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