

CSMFO Conference

Frog Protection? No, Fraud Prevention!

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Introduction

- ❖ Frog Protection Video
- ❖ Speaker Introductions
- ❖ Overview of the class, where are we going?
 - i. Fraud Statistics
 - ii. Fraud Triangle and Red Flags
 - iii. War Stories
 - iv. Prevention
 - v. Initial Steps for an Investigation Process



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Fraud Statistics

- ❖ A typical organization loses approximately 5% of revenue to fraud
- ❖ Median loss of \$145,000
- ❖ Median __ month duration period to detect fraud
- ❖ Smaller organizations suffer disproportionately larger losses
- ❖ Banking, financial services, _____, and manufacturing organizations have the greatest number of fraud cases reported
- ❖ How was the fraud detected?
 - i. Tip - ____%
 - ii. Management review - ____%
 - iii. Internal audit - ____%
 - iv. By accident - ____%
 - v. Account reconciliation - ____%
 - vi. External audit - ____%

**Statistics from the 2014 ACFE Global Fraud Study*



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Who are the Perpetrators?

- ❖ Positions:
 - i. Employee – ____%
 - ii. Manager – ____%
 - iii. Owner/Executive – ____%
- ❖ Median Loss Amount:
 - i. Employee – \$64,000
 - ii. Manager – \$_____
 - iii. Owner/Executive – \$_____
- ❖ Median number of months to detect fraud:
 - i. Employee – ____
 - ii. Manager – ____
 - iii. Owner/Executive – ____
- ❖ Age range:
 - i. 41-45 : 18%
 - ii. 36-40 : 18%
 - iii. 31-35 : 16%
 - iv. 46-50 : 15%
 - v. 26-30 : 11%



Perpetrators Continued...

❖ Median loss based on Age:

- i. Over 60 - \$_____
- ii. 56-60 - \$_____
- iii. 51-55 - \$_____

❖ Gender:

- i. ____% men and ____% women
- ii. Median amount of loss:
 - a) Men \$_____
 - b) Women \$_____

❖ Departments:

- i. Accounting – 17%
- ii. Operations – 15%
- iii. Sales – 13%
- iv. Executive/ Upper Management – 12%



Fraud Triangle and Red Flags

❖ Pressure (Albrecht book)

- Personal financial factors that may lead to fraud:
 1. Financial difficulties (33%)
 - a. High _____ or financial losses
 - b. Inadequate income
 2. Living beyond one's means (44%)
- Personal habits that may lead to fraud:
 1. Extensive stock market or other types of speculation (starting a new business)
 2. Extensive _____
 3. Illicit affairs
 4. Excessive use of _____ (12%)



Fraud Triangle and Red Flags

- Opportunity:
 1. Amount of fraud would decrease if the opportunity did not exist
 - a. Reasons for increased fraud risk:
 - i. Crime requires a simple act
 - ii. Chances of being detected are very slim
 - iii. Punishment is very light
 - b. What if security was tight? What if sound internal controls require an elaborate scheme? What if the likelihood of detection is high? What if punishment is severe?
 2. Personally Created Opportunities:
 - a) Familiarity with operations (including cover - up capabilities)
 - b) Close association with suppliers, _____, and other key people (22%)
 - c) Unwillingness to _____(21%)



Fraud Triangle and Red Flags

3. Organizational Characteristics:
 - a. Weak _____
 - b. Absence of _____ in job duties
 - c. Constantly operating under a _____ environment
 - d. Little attention to details
 - e. Poor _____
4. Opportunity is the _____ thing your organization can control!



Fraud Triangle and Red Flags

- Rationalization:
 1. How can you be proactive and know who will rationalize fraudulent behavior?
 2. Embezzlers don't fit the criminal stereotypes; they appear to be trustworthy: sincere, likeable, sociable, etc.
- Personal Emotions that may lead to fraud:
 1. Strong community or social expectations to succeed (6%)
 2. Perception of being treated unfairly or inadequately by the organization (9%)
 3. Resentment towards _____
 4. Frustration with job
 5. Insatiable desire for self-enrichment or _____
 6. Wheeler – dealer attitude (18%)



War Stories

- ❖ City of Dixon
- ❖ CPA church theft
- ❖ City of Pasadena
- ❖ Orange Center School fraud
- ❖ ING - Mueller



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Prevention

❖ Preventing Fraud:

- Employee _____ programs – can help alleviate pressure
- _____ controls
- Forensic _____ – critical in larger operations due to large number of transactions. Decreases the chances of “eyeballing” a problem
- Fraudulent activity to look out for:
 1. Fraudulent vendors usually show a very high, year over year growth
 2. Employee using a company purchasing card for personal expenses, often has a geometric growth in total purchases
 3. Employee with fraudulent overtime scheme shows high growth in hourly totals, sometimes to impossible levels
- Fraud Hotline
- Fraud awareness training: reminding people that fraud is real and could be happening. A co-worker living beyond means is a classic red flag.
(Not a silver bullet, just another opportunity to raise suspicion.)



Prevention

❖ Continued:

- Check log – simple but effective
- _____ audits
- Job rotation
- Mandatory _____
- Background and _____
- _____ safeguards
- Control addition of new vendors and delete dormant vendors from system
- _____ interactions with outside parties (errors, refunds, overpayments) can be reviewed by risk management or another independent person
- Complete the ACFE Fraud Prevention Checklist



Investigation

❖ Initial Steps:

- Inform the audit committee, board, etc.
- Contact legal counsel
- Engage an independent fraud expert
- Stop the bleeding, i.e. eliminate access
- Secure computers, relevant accounting information, and other documents
- Documentary evidence should typically be reviewed before interviews are conducted



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Questions?



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