



**GARY ZEUNE & ASSOCIATES**

Training, Writing and Consulting in:  
Fraud and Audit Failures  
Leadership Skills and Strategies  
Productivity Performance Measures

10356 Wellington Blvd., Suite D  
Powell, OH 43065  
614-761-8911  
gzfraud@bigfoot.com  
www.TheProsAndTheCons.com



# How to Detect and Prevent Internal Fraud, Theft and Abuse



**GARY D. ZEUNE**  
The Pros & The Cons  
10356 Wellington Blvd Suite D  
Powell, OH 43065

Office 614-761-8911  
Fax 206-202-0880

gzfraud@bigfoot.com

www.TheProsAndTheCons.com

## TRAINING AND CONSULTING

Using 35 years of experience in auditing, corporate finance, and investment banking, Gary D. Zeune, CPA, provides CPAs, attorneys and executives with hands-on experience in fraud and corporate strategy performance improvement. Mr. Zeune instructs courses for:

- ❑ FBI National Training Academy
- ❑ Office of the U.S. Attorney
- ❑ The SEC Institute
- ❑ National Association of Securities Dealers
- ❑ North American Securities Administrators Association
- ❑ American Society for Industrial Security
- ❑ Over 35 state CPA societies and bar associations
- ❑ American Institute of CPAs
- ❑ American Management Association
- ❑ Institute of Management Accountants
- ❑ Entrepreneurship Institute
- ❑ Treasury Management Association
- ❑ Private classes for numerous companies and accounting firms.

Mr. Zeune has instructed Strategy Formulation and Implementation in the Executive MBA Program and Accounting and Honors Finance at The Ohio State University. He is also a member of the Education Executive Council and is past chairman of the Education Marketing and Public Relations Committees of The Ohio Society of CPAs. His other memberships include: the American Institute of CPAs, and the Regulation of Public Offerings Committee of the Ohio Division of Securities.

Prior to forming his consulting practice in 1986, Mr. Zeune was an Assistant Vice President of Corporate Finance at The Ohio Company, a Columbus, Ohio investment banking firm. He also spent more than five years in Treasury and Finance at Wendy's International, where he was responsible for mergers and acquisitions, financial and SEC reporting, and corporate finance. He was on the audit staff of Ernst & Ernst from 1973 to 1977; and taught accounting at Ohio University from 1970 to 1973, where he received his bachelors in mathematics and masters in accounting, with honors.

## ARTICLES AND BOOKS

Mr. Zeune is also widely published. He has published more than 40 professional articles and is the author of *The CEO's Complete Guide to Committing Fraud* and *Outside the Box Performance*. He has been a member of the Editorial Advisory Boards of the *Journal of Working Capital Management* and *The Ohio CPA Journal*.

For Deloitte & Touche, he authored *Financing Business Growth* and has completed the first draft of *The Complete Guide to Buying or Selling a Closely Held Business*, two books in the firm's Entrepreneurial Series. He has authored chapters for two books published by Warren Gorham Lamont, the world's largest financial publisher: *Accessing the Capital Markets* and *Options for Raising Capital*.

## WHITE COLLAR CRIMINALS

Mr. Zeune has the ONLY speaker's bureau in the country specializing in white-collar criminals — The Pros & The Cons. Mr. Zeune's speakers tell their stories of how and they committed their crimes. Their frauds range from \$18,000 to \$350 million. Speakers include CPAs, attorneys, and business people. The frauds include:

- ❑ Mark Morze created 10,000 phony documents to steal \$100 million in the infamous ZZZZ Best Carpet Cleaning fraud (86% of the revenue was fake and no one found it)
- ❑ Fred Shapiro defrauded nearly every major financial institution in the City of Philadelphia to the tune of \$8.6M. He is a former attorney, accountant, educator and inmate. Fred worked undercover with the U.S. attorney's office and the FBI in a drug and money laundering operation in an effort to minimize his sentence.
- ❑ Nick Wallace committed a \$350 million fraud as the President of ESM Government Securities resulting in the collapse of the Ohio Saving & Loan Guarantee Fund, and the bankruptcy of 69 Ohio S&Ls
- ❑ Dunlap Cannon was the largest real estate closing attorney in Memphis. He went to prison for 32 months for stealing \$5 million from his clients.
- ❑ Suffering from medical expenses and family deaths, bookkeeper Teri Lynn Norwood stole \$18,000, promising to pay it back. She ran out of time.

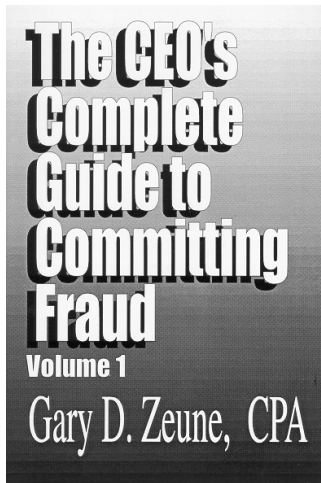
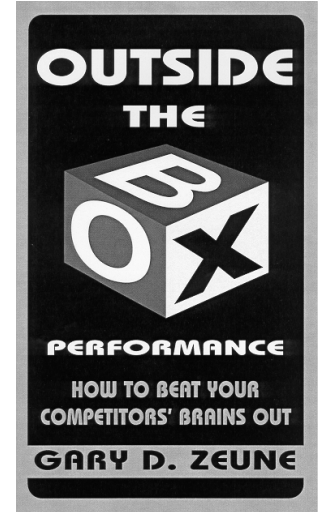
### **100% No-Risk Guarantee**

*Mr. Zeune's executive education training is consistently rated at least a 4.7 on a 5-point scale. If you are not satisfied for any reason, if you don't learn at least 10 new things you can use the following day, there are no fees or expenses. PERIOD.*



# Want More Info? Order the Book!

**Outside the Box Performance: How to Beat Your Competitors' Brains Out** is packed with the techniques small and mid-size world-class companies use to become and stay competitive, and make a ton of money. Learn the secrets to unlock the multitude of new techniques which "drive" your profitability. This book compliments the class and provides new ideas to incorporate in your business. For example, do you know what the basis of competition will be in the next 10 years? It's around you ALL the time. You expect it everyday as a customer. Or, how to beat your competitors by asking your customers two simple questions? If not, sit back and learn how to "beat your competitors' brains out!"



Don't you want to know how Barry Minkow and Mark Morze stole \$100 million from investors in the ZZZZ Best Carpet Cleaning fraud, right under the noses of auditors, underwriters and lawyers? The first chapter of 100 pages in *The CEO's Complete Guide to Committing Fraud* tells you. It also has 8 chapters on other frauds: computer, real estate, fake financial statements, public company frauds, and a chapter by an auditor who became the target of a fraud investigation, just 4 weeks after becoming the engagement partner.

**Risk-Free Lifetime Guarantee:** Gary Zeune's books are fully guaranteed. If they **ever** fail to meet your expectations, even after you've written in them, marked them up, torn pages out, return for a full refund.

I need the following copies of Mr. Zeune's books. Price: 1 @ \$19.95: 2 to 5 @ \$15.95 6+ @ \$12.95

\_\_\_\_\_ *The CEO's Complete Guide to Committing Fraud* (300 pages)  
 \_\_\_\_\_ *Outside the Box Performance* (200 pages)

\_\_\_\_\_ Number of books ordered

1 @ \$19.95

2 - 5 @ \$15.95 each

6+ @ \$12.95 each

Postage/Shipping \_\_\_\_\_ \$5.00

Total \_\_\_\_\_

**Checks** make payable to:

Gary Zeune  
 10356 Wellington Blvd Suite D  
 Powell, OH 43065  
 Office 614-761-8911  
 Fax 801-751-6283  
 Email [gzfraud@bigfoot.com](mailto:gzfraud@bigfoot.com)  
 Web [www.bigfoot.com/~gzfraud](http://www.bigfoot.com/~gzfraud)

Name \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Phone \_\_\_\_\_ Fax \_\_\_\_\_

Email \_\_\_\_\_

Address is:  Firm  Home



## **GARY ZEUNE & ASSOCIATES**

Training, Writing and Consulting in:  
Fraud and Audit Failures  
Leadership Skills and Strategies  
Productivity Performance Measures

10356 Wellington Blvd., Suite D  
Powell, OH 43065  
Phone 614-761-8911  
gzfraud@bigfoot.com  
www.TheProsAndTheCons.com

# **Gary Zeune Articles at www.TheProsAndTheCons.com**

Would your clients, staff, customers, vendors or another group you belong benefit from one of these articles?  
Email Gary Zeune at [gzfraud@bigfoot.com](mailto:gzfraud@bigfoot.com) for reprint permission.

**Ex-con: Cunningham Faces Rough Road In Prison - By William Finn Bennett**

**Walt Pavlo USA TODAY Ethics training -**

**Gary Zeune on Fraudsters Speaking Out on Fraud The Corporate Counsel - Podcast**

**OU alumnus examines corporate crime, criminals - By Ashley Ferguson**

**Ex-cons tout ethics through corporate speakers bureau - By Sarah Anderson**

**Man's Lifestyle Sold Investors - By Jim Woods**

**"The Pros of Cons" - By Michael Goldstein**

**Legal Audits: Does Your Borrower Need A Checkup? - Schottenstein, Zox & Dunn.**

**An Ex-Con Tells How to Avoid Being Conned. - By Fred Shapiro, in White-Collar Crime Fighter. December, 2004.**

**Does your compensation system encourage illegal activity? - By Gary D. Zeune, CPA, Published in White Color Crime Fighter in November 2004**

**Speaker explains how corporate con men get away with it - By Jim Phillips [ Athens NEWS Senior Writer ] in The Athens News in October 2004**

**How to Foster Fraud : Forget Ethics - By Gary D. Zeune in White Color Crime Fighter in August 2004**

**Your Auditors Can Stop Fraud , If they know what to look for - By Stephen Pedneault published in White Color Crime Fighter in August 2004**

**After Serving Time, Executives Now Serve Up Advice - by CHRISTOPHER S. STEWART in The New York Times**

**Local CPA, ex-cons attempt to spread word that crime doesn't pay - by SEAN CASEY [ Daily Reporter Staff Writer ] in Central Ohio Source " The Daily Reporter"**

**The costs of not securing personally identifiable Data - By Benjamin Wright "The Information Systems Audit and Control Assn." Site : [www.isaca.org](http://www.isaca.org)**

Ex-Cons find peace and paycheck on the Burgeoning lecture circuit - By Joshua Harris Prager published in Wall Street Journal May 25th, 2004

Felons become educators for Business - By Mitch Moxley [ Financial Post ] Published in National Post July 17, 2004

A new regard for ethics on the job - By MEREDITH COHN [ SUN STAFF ] Originally Published JULY 9, 2004

The pros of preventing cons - White-collar criminals help companies avoid fraud in their midst By Chiree McCain, For Business First - June 25, 2004

Are You Teaching Your Employees to Steal? - By Founder Gary D. Zeune, CPA in Strategic Finance

When it's one of your own a first-person account of Fraud Inside A Bank - by ex-con Dave London in RMA Journal

FRAUD HAPPENS : How an honest employee crossed the line - by Teri Lyn Norwood Published in White - Collar Crime Fighter Magazine , November 2003

Internal theft can destroy years of small business owner's work - by Jane Applegate

Fraud and Theft Start Small - by Founder Gary Zeune in NJ CPA Society Journal

How to Predict When People Will Embezzle - by Founder Gary Zeune in White Collar Crime Fighter

Hubbell details life of fraud - September, 2000 in San Antonio Express

Speaking with Conviction - from Report on Fraud

Corporate crooks hit lecture circuit - from Denver Post

Ex-Con Tells How Auditors Failed to Help Clients Guard Against Fraud - by Mark Morze in White Collar Crime Fighter

Preventing Your Firm's "Enron" - by Founder Gary Zeune in Ohio CPA Journal

SAS 99 17 Ways to Protect Yourself From Malpractice - by Founder Gary Zeune in 7 CPA journals

Regulation SAS 99 Aimed at Curbing Company Fraud - from Bizjournals , March 2004

Business First Auditors' Alert: How NOT to Get Sued Under Fraud Auditing Standards - by Founder Gary Zeune in White Collar Crime Fighter

SAS 99 Friend or Foe - by Founder Gary Zeune in two publications

(SAS 99 RMA) Look Out! New fraud auditing standard holds worrisome implications for financial statement reliability : interview with Gary Zeune in RMA Journal (for banking industry)

Like an article.....Email Gary Zeune at [gzfraud@bigfoot.com](mailto:gzfraud@bigfoot.com) for reprint permission.

## How to Detect and Prevent Internal Fraud, Theft and Abuse

Gary Zeune  
10356 Wellington Blvd., Suite D  
Powell, OH 43065  
Phone 614-761-8911  
Fax 206-202-0880  
Email [gzfraud@bigfoot.com](mailto:gzfraud@bigfoot.com)  
Web [www.TheProsAndTheCons.com](http://www.TheProsAndTheCons.com)



**These materials were developed by Gary D. Zeune.  
The following policies govern their use:**

1. These materials are intended for use in group study situations and were not developed for self study or reference uses. These materials are copyrighted. Reproduction of the manual or any portion of it is prohibited unless written permission has been obtained from Gary D. Zeune.
2. These materials were prepared solely for the purpose of continuing professional education. They are distributed with the understanding that Gary Zeune is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional should be sought.
3. Participants are advised that the Statement on Standards for Formal Continuing Education (CPE) Programs places responsibility on both the individual participant and the program sponsor to maintain a record of attendance at a CPE program.
4. The information the participant should keep on each program is (a) sponsor's name, (b) title and/or description of content, (c) date(s) of the program, (d) location, (e) number of CPE contact hours. This information is found in the printed program for most courses or conferences and/or in a CPE attendance record form. Either or both of these documents should be kept for an appropriate period to enable regular periodic reporting to jurisdictional board(s) and to professional organizations requiring such reports.





## Manual Posted Online

This manual is posted at  
[www.TheProsAndTheCons.com/manuals](http://www.TheProsAndTheCons.com/manuals).  
It can be viewed and printed but not  
downloaded, edited or saved on your computer.



3



## Free: Leading Edge Information Every Week

This slide  
is blank in  
the manual.

Stay up to date with Mr. Zeune's free  
electronic newsletter.

See the back of Gary's business card.

There is no cost and you can  
unsubscribe at any time.



"Just wanted to let you know that I appreciate being  
on your distribution list. I have found that there are  
many items that you refer to me that are helpful."

. . .Mike McGlynn

4



## The Future

1. I want to grow up and steal from and cheat my employer
2. Who should be concerned about fraud, theft, abuse
  - Auditors
  - Controllers
  - Loss prevention specialists
  - Owners and managers at all levels
  - HR personnel
  - Academics

5

**2004 REPORT TO THE NATION  
ON OCCUPATIONAL FRAUD AND ABUSE**

[www.CFEnet.com](http://www.CFEnet.com)  
800-245-3321



## How Much Fraud is There

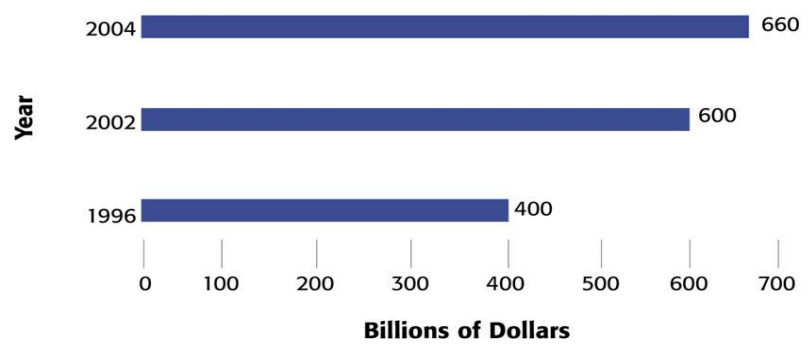
1. Association of Certified Fraud Examiners
  1. \$660 Billion
  2. 6% of revenue
  3. \$9 per day per employee
  4. \$4,500 per employee
2. E&Y
  1. 20% of employees know of fraud and abuse
  2. 48% of employees think employers can do more



## Cost of Fraud

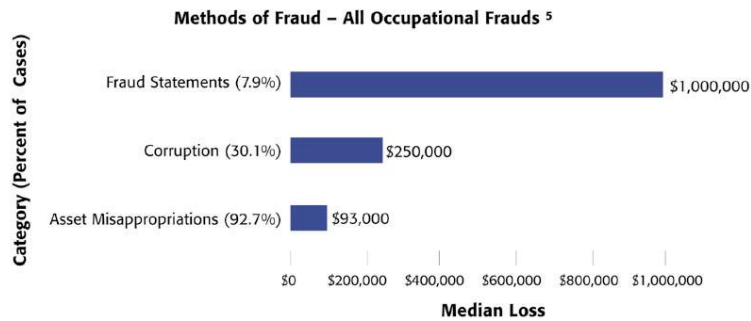


**Total Occupational Fraud Losses <sup>3</sup>**





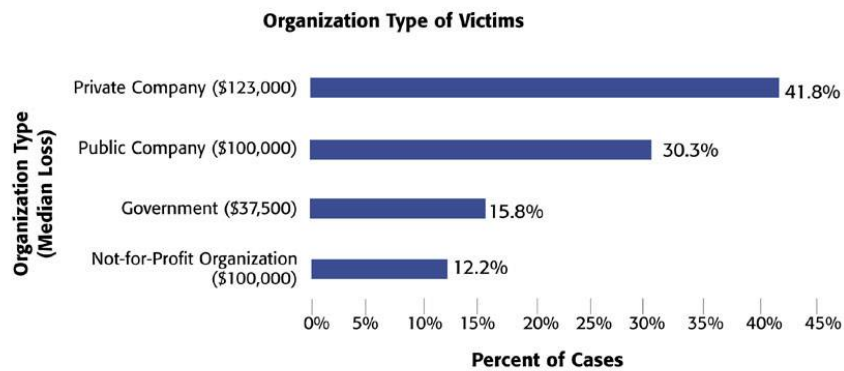
## 3 Types of Frauds



9



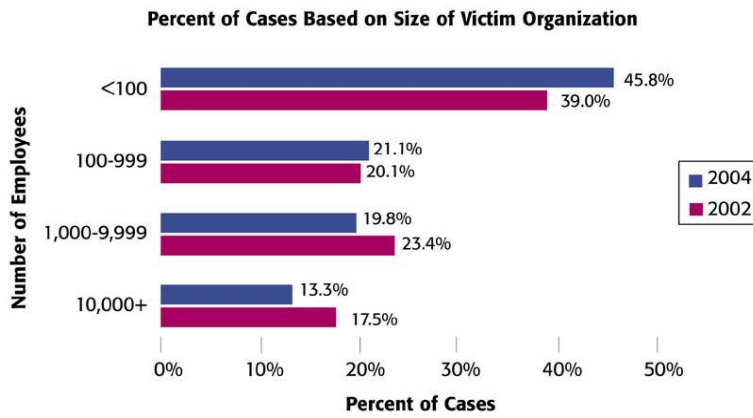
## Who the Victims Are



10



## Most Fraud at Small Organization



11



## Small Organizations Suffer More

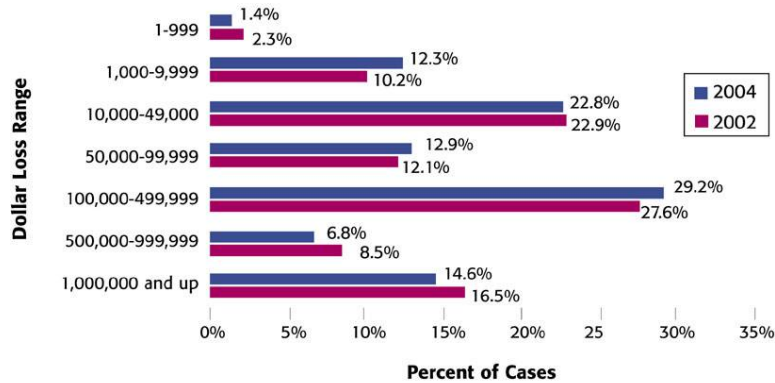


12



## Loss Distribution

Distribution of Dollar Losses



13



## Ethics: Students Who Cheat



1. 9 business students at U of Maryland were text messaging during an \_\_\_\_\_
2. Texas teen charged with selling test answers stolen with keystroke recording software
3. 7 Kansas State students plagiarized papers off internet

14



## Ethics: Students Who Cheat



1. \_\_\_% of students admit cheating at least once last year and \_\_\_% admit serious cheating.....Rutgers survey of 60 colleges
2. \_\_\_% of high school students admit to at least one instance cheating and \_\_\_% to plagiarism
3. \_\_\_% of private school students admit cheating
4. Gallup survey of 13 – 17 year olds \_\_\_% cheat 'a great deal' or a 'fair amount'
5. Josephson Institute of Ethics 2004 surveyed 24,763 high school students \_\_\_% cheat on exams

15



## Ethics: Students Who Cheat



1. Cheating isn't new
2. What's new is how widespread and accepted
3. Old.....
  1. People who cheated were in the minority
  2. Kept it to themselves
4. Now.....
  1. Majority
  2. Bold

16



## Ethics: Success at Any Cost



1. Technology + Bad Behavior = Acceptable in Society
2. Who.....
  1. Athletes + drugs + outrageous behavior
  2. Executives cooking the books
  3. Journalists faking stories
  4. Teachers faking student test scores
3. Normalization of cheating....Everybody is doing it....  
If you don't, you're a chump
4. Message.....nothing is out of bounds for \_\_\_\_\_



## Ethics: Technology Makes Cheating Easy



1. Camera phone to \_\_\_\_\_
2. MP3 players with digitized notes
3. Internet and IM are both anonymous
4. Fast and quick and deniable
5. 'Grab-and-go' culture
6. Technology masks the guilt factor





## Ethics: Why Students Cheat



1. Education is a means to \_\_\_\_\_
2. Message.....financial well-being more important than being a moral person
3. "If you think what went on with Enron or WorldCom is bad, just wait," Michael Josephson (Founder Josephson Institute of Ethics )

Fraud Tip: What are you doing \_\_\_\_\_

19



## Which is more costly for banks



Source: Occupational Fraud and Abuse

20



## Red Flag Work Habits

---



1. Come to work early or leave late
2. Works nights and weekends
3. Seldom absent from work
4. Reports to office during brief absences
5. Ask others to hold work while gone

21



## What Fraud Perpetrators Do

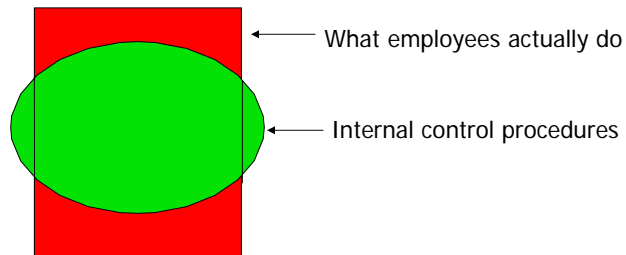
---

- They don't play by the rules
  - (1) Ignore internal controls
  - (2) Compromise internal controls

22



## Internal Controls: Concept vs. Reality



Internal Controls and Fraud, Joseph R. Dervaes, CFE, ACFE Fellow, CIA

Fraud Tip: If you REALLY want to know how controls work, ask the people who do the work \_\_\_\_\_.

23



## Fighting Fraud Proactively

1. Tone at the top } Fraud Tip: \_\_\_\_\_
2. Walking the talk } \_\_\_\_\_
3. Fraud is not "if", but "when"
4. Protect your employees
5. Communicate why controls are important
6. Trust but verify = \_\_\_\_\_

Fraud Tip: \_\_\_\_\_

24



## Four Elements of Fraud



- All four must be present under common law
  1. A material false statement
  2. Knowledge that the statement was false when it was made
  3. Reliance on the false statement by the victim
  4. Damages as a result

25



## Frauds Facts

1. Employees have a fiduciary relationship to their employers
2. Embezzlement is a special kind of fraud
  - To willfully take someone's money or property by virtue of position of trust or employment
3. Larceny is legal name for stealing
  - Larceny by fraud or deception

26



## Abuse: A Few Examples

1. Buying stuff for others using employee \_\_\_\_\_
2. Taking company inventory
3. Not working for hours submitted
4. Fake T&E expenses
5. Unauthorized loooooong lunch hour
6. Arrive late/leave early
7. 'Mental' health days
8. Not working to potential
9. Working under the influence



## Fraud vs.. Abuse



Fraud: Stealing \$100

Abuse: Calling in sick

What would likely happen if employee gets caught stealing \$100 \_\_\_\_\_ vs. what's likely for taking 'sick" \_\_\_\_\_

The difference \_\_\_\_\_



## History of Fraud

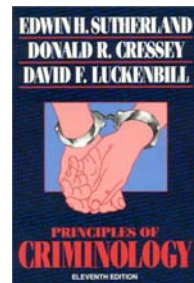


29



## Edwin H. Sutherland

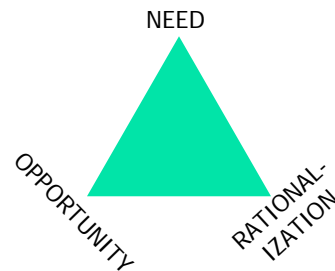
1. Crime had been genetically based
2. Coined "white collar crime"
3. Theory of differential association
  - Dishonest employee will infect honest employees



30

## The Triangle of Fraud Donald R. Cressey

"Trusted persons become trust violators when they conceive of themselves as having a financial problem [NEED] which is non-sharable, are aware this problem can be secretly resolved by violation of the position of financial trust [OPPORTUNITY], and are able to apply to their own conduct in that situation verbalizations [RATIONALIZATIONS] which enable them to adjust their conceptions of themselves as trusted persons," *Other People's Money: A Study in the Social Psychology of Embezzlement*, based on interviews with 200 embezzlers.



31

## Cressey's Non-sharable Problems



1. Violations of ascribed obligations
2. Personal failures
3. Business reversals
4. Physical isolation
5. Status gaining
6. Employer-employee relations

32



## Cressey's Rationalizations

1. Non-criminal or
2. Justified or
3. Offender doesn't control the situation

"In cases of trust violation encountered, significant rationalizations were always present before the act took place, or at least at the time it took place, and, in fact, after the act had taken place the rationalization was often abandoned."

Fraud Tip: Once the line is crossed, it becomes easier to \_\_\_\_\_

33



## Cressey's 3 Offenders Types

1. Independent businessmen
  - I was just borrowing the money
  - The funds were really theirs (everyone's \_\_\_\_\_)
2. Long-term violators
  - Prevent family shame, disgrace or poverty
  - Necessity (employers were cheating them)
  - Employers cheated others
3. Absconders
  - Take the money and run - isolated

Fraud Tip: Many experts think 4<sup>th</sup> type: \_\_\_\_\_

34



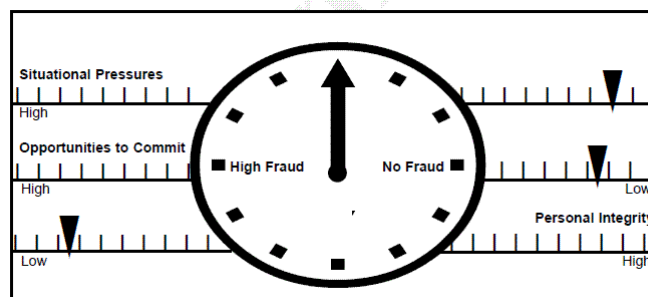
## Cressey's 9 Reason People Perpetrate

1. Living beyond their means
2. Overwhelming desire for personal gain
3. High personal debt
4. Close association with customers
5. Feeling pay not commensurate with responsibility
6. Wheeler-dealer attitude
7. Strong challenge to beat the system
8. Excessive gambling habits
9. Undue family pressure

Deterring Fraud: The Internal Auditor's Perspective



## Cressey's Fraud Scale



Deterring Fraud: The Internal Auditor's Perspective



## Theft by Employees Hollinger-Clark Study



1. Richard Hollinger, Purdue, and John Clark, U of Minn
2. 10,000 American workers
3. Employees steal because of workplace conditions
4. Experts have 5 related hypothesis of employee theft
  1. External financial pressures
  2. Young employees not as hard working + honest
  3. Every employee can be tempted to steal
  4. Job dissatisfaction
  5. Broadly shared formal and informal org structure

37



## Deviance Factors: Hollinger-Clark Study



1. No relationship between income and theft, but was between "concern" over income and theft
2. Larger % of younger employees steal more since less \_\_\_\_\_
  - Inferior benefits to younger workers signals that they aren't important and \_\_\_\_\_
  - BUT, same benefits to all usually not practical
3. Low job satisfaction for all age groups especially younger workers
4. Controls generate mixed employee reactions: preventive vs.. mistrust

38



## Theft by Employees Hollinger-Clark Study

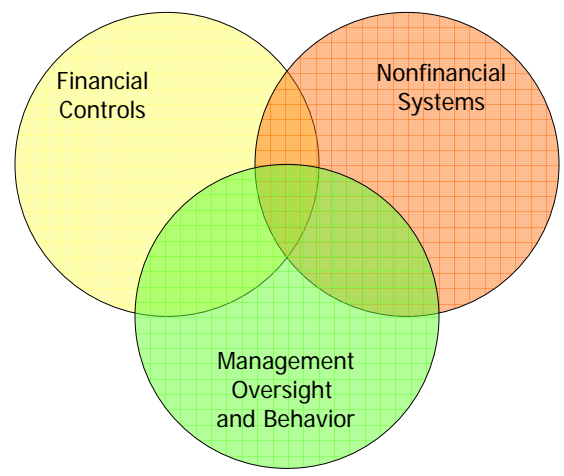


- 5. Perceived certainty of detection much more of a deterrent than actual detection
- 6. Informal social controls the best deterrent... "loss of respect among one's acquaintances was the single most effective variable"
- 7. "....theft and work place deviance are in large part a reflection of how management at all levels...is perceived by the employee."

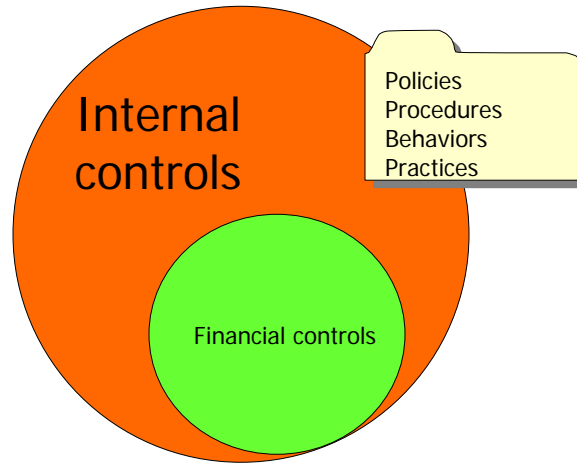
Fraud Tip: \_\_\_\_\_



## Comprehensive Control System



## Internal vs.. Financial Controls



41

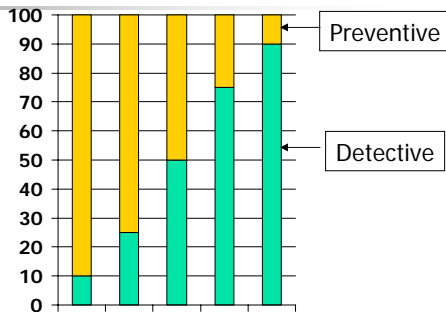
## Financial Controls

### 1. Preventive controls

- Filing cabinets
- Passwords
- Approvals

### 2. Detective controls

- Bank recs
- Variance analysis
- Vacations
- Surveillance



WHICH IS NECESSARY?????

42



## Nonfinancial Controls

---

1. HR and IT systems
2. Physical security
3. Communications systems
4. Insurance

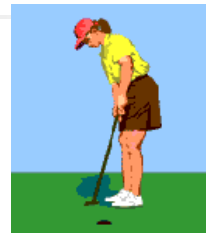
43



## Management Oversight + Behavior

---

1. Tone at the top
2. Financial analysis and budgeting
3. Communications
4. Board oversight
5. Integrity and ethics
6. Comply with organization policies



44

## Segregate These Duties

1. Billing
2. Recording revenue
3. Receipt and recording payments
4. Deposits
5. Posting receipts
6. Reconciling bank statement
7. Reconciling A/R subledger

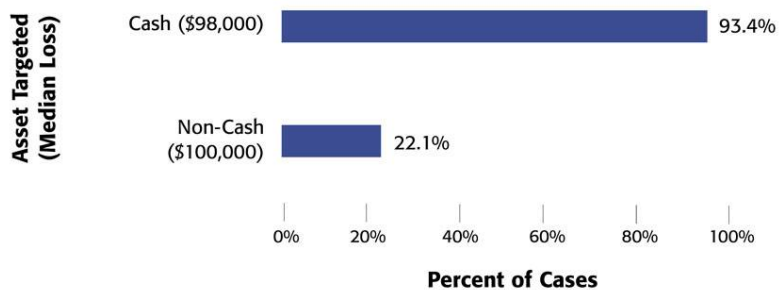


45

## Cash vs. Non-cash Thefts



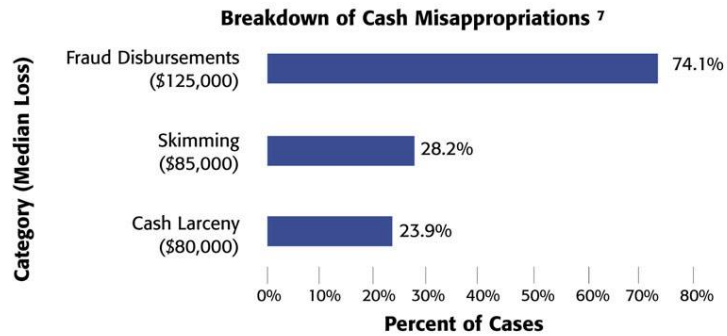
**Breakdown of Asset Misappropriations <sup>6</sup>**



46



## Cash Thefts



47

## Revenue and Cash Receipts

1. Skimming
2. Lapping
3. Write-offs
4. Unauthorized credits
5. Unrecorded sales



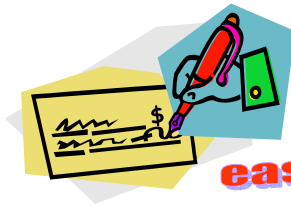
48



## Skimming Committed By.....



1. Anyone collecting or opening mail
2. Anyone logging receipts, preparing or making deposits
3. Anyone involved in sales



**Checks can be easily converted/stolen**

49



## The Skimming Surgeon



1. 42-year old plastic surgeon
2. Large physician-owned office
3. Top money earner making up to \$800,000
4. Each doc operated own office
5. Purely elective surgeries not covered by insurance
6. All charges required to be paid upfront turned into front office cashier

Adapted from Shy Doc Gave Good Face

50



## The Skimming Surgeon



1. Patients entered through his private door
2. Rita Mae's nose job
3. She noted her policy covered *some* nose jobs
4. To file a claim she needed a \_\_\_\_\_
5. She calls \_\_\_\_\_ that she had written a \_\_\_\_\_
6. Made out to \_\_\_\_\_
7. Which was deposited in \_\_\_\_\_
8. Dr. Snard kept meticulous medical records

Adapted from Shy Doc Gave Good Face

51



## The Skimming Surgeon



1. Making money was his family's sport
2. WHY \_\_\_\_\_
3. Imposed new controls
  - Central billing system
  - Post signs educating patients
  - Segregate duties
4. 4 years and \$200,000
5. Practice allowed Dr. Snard to stay with \_\_\_\_\_

Adapted from Shy Doc Gave Good Face

52



## Understated Sales



1. Recorded but at too little
2. Cashier prepares written receipts but instead of carbon paper between the slips inserts \_\_\_\_\_
3. False discounts give customer receipt for full price but record sale at discount

53



## Other Skimming Opportunities

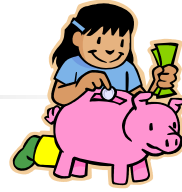


1. Late fees and similar charges
2. Write-off of receivables
3. Unauthorized credits
4. Unrecorded sales
  1. Ring \_\_\_\_\_
    1. Detection: \_\_\_\_\_
  2. Remove the printer ribbon, track sales, steal cash, roll \_\_\_\_\_
    1. Detect by \_\_\_\_\_

54



## Preventing(?) Skimming



1. Can't prevent
2. Occurs at any point funds enters
3. Dual control at first receipt
  - Don't have to hire a second employee
  - Each person count half in presence of other
4. Segregate recording payments and post payments
5. Lockbox, but NOT foolproof
  - Some customers won't use it
  - Print invoices with or insert BRE's with \_\_\_\_\_

55



## Detecting Skimming

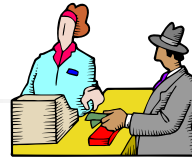


1. Rotate duties and require vacations
2. Reconcile BREs received and Post Office charges



56

## Purchasing and Disbursement Schemes



1. Billing schemes
2. Personal expenses
3. Refund schemes
4. Check tampering and EFT schemes

57

## Fraud in Tooth College



1. Married college business office supervisor takes girlfriend on business trip
2. Cover additional expense with phony expense report listing as his travel mate a college senior \_\_\_\_\_
3. Expense report reviewed at random by \_\_\_\_\_
4. Dir. of IA interviews the supervisor, who is fired
5. Dir. of IA attempts to interview supervisor's office mate and asst, who didn't \_\_\_\_\_ saying her Calif. uncle had been \_\_\_\_\_

Adapted from Medical School Treats Fraud and Abuse

58



## Fraud in Tooth College



1. Search the supervisor's and asst's office finding bags of expensive dental tools and prostheses
2. Supervisor's office process A/P invoices so IA suspects \_\_\_\_\_
3. Master file contained every vendor ever \_\_\_\_\_
4. Selected 50 without \_\_\_\_\_
5. Matched with A/P info
6. XYZ Supply billed several times a month, all under \$4500, no vendor application or bid form

Adapted from Medical School Treats Fraud and Abuse

59



## Fraud in Tooth College



1. XYZ invoices on plain paper, prepared on a \_\_\_\_\_
  1. Some even had invoice numbers
  2. 4 digit Box number but PO used \_\_\_\_\_
  3. Found blank invoices in asst's \_\_\_\_\_
2. Vendors and employees could pick up the \_\_\_\_\_
3. Thank you in mail from vendor for purchasing 8 toner cartridges of \$1,500 each but cost max \$\_\_\_\_\_
4. Supervisor was stunned his asst had stolen \$63,000 working next to him and he \_\_\_\_\_

Adapted from Medical School Treats Fraud and Abuse

60



## Fraud in Tooth College

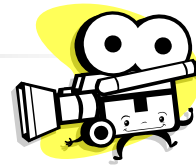


Fraud Tip: \_\_\_\_\_  
\_\_\_\_\_

Adapted from Medical School Treats Fraud and Abuse

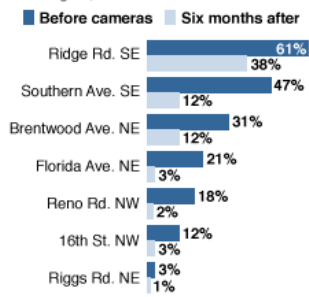


## Controls "Drive" Behavior



### CAUGHT ON TAPE

Percent of vehicles going more than 10 mph above the speed limit before and after speed cameras were installed in various locations in Washington, D.C.



Source: Insurance Institute for Highway Safety

## Controls Over Purchasing and Disbursements



1. Purchase request and authorization
2. Receiving and recording payable
3. Approval of vendor invoices and check writing
4. Mailing of checks
5. Reconcile A/P subledger and bank account

63

## Personal Purchases

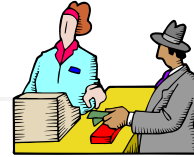


1. Use legit vendors
2. Usually not material
3. Purchasing or receiving employees
4. Supplies, food, books, clothing, computers, office furniture, and equipment
5. Typical control weaknesses
  - Failure to reconcile purchases with receivers
  - Failure to segregate duties

64



## Credit Card Abuses



1. Anyone can have one
2. No credit checks on employees
3. Credit limits based on reasonable need
4. Locked up until needed
5. Card holders acknowledge rules and responsibility
6. Prompt review of statements
7. Submit supporting charge slips or pay personally
8. Quickly suspend or revoke if abused
9. Use purchasing cards instead of credit cards

65



## Credit Card Best Practices

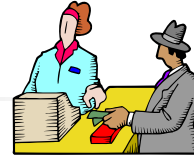


1. Criteria for issuance
2. Initial and annual credit checks
3. Position of trust
4. Used for business (with examples)
5. Never used for personal expenses or cash
6. Maintain physical control
7. Procedures for lost cards

66



## Credit Card Best Practices



8. Spending limit by card
9. Types / amounts needing prior approval
10. Submit charge slips within \_\_\_\_ days
11. Report disputed charges within \_\_\_\_ days
12. Procedures to request increase in limit
13. Acknowledge violations of card policy violates code of conduct and is grounds for revocation, firing or prosecution

67



## Duplicate Payment Schemes



1. What: Multiple payments to legit vendors
2. Who: Purchasing employees, AP or accounting clerks
3. Poor controls make it easy
4. Services are easier since \_\_\_\_\_
5. Simple: Copied/faxed/original invoice not cancelled

68

## Sophisticated Duplicate Payment Schemes



1. Create the duplicate payment
  1. Cut check for legit invoice but hold
  2. Wait for new statement with 'paid' amounts
  3. Pay same amount again
  4. Take the first check
2. Convert the check to cash
  1. Endorse over to their own name
  2. Open account in vendor name at different bank
  3. Use a check-cashing establishment

69

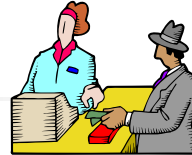
## Minimizing Duplicate Payments



1. Preventive controls
  - Pay from ONLY original invoices
  - Match invoices with receivers or POs
  - Match quantities or services against authorized
  - Capture vendor invoice numbers
  - Immediately cancel vendor invoices
  - Don't allow requestor to mail check
2. Detective controls
  - Review vendor histories, endorsements
  - Confirmations

70

## Fictitious Vendor Invoices



1. Most for services
2. Don't divert check
3. DON'T mail to \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_
4. Use former legit vendor
  - Must intercept the check or change the address

71

## Minimizing Fraudulent Vendors

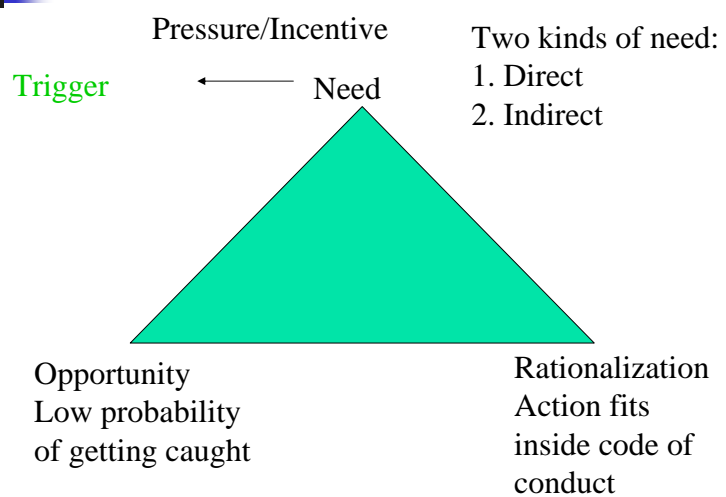


1. Preventive controls
  - Verify existence
  - Segregate duties
  - Delete old vendors
2. Detective controls
  - Review vendor master file
  - Compare budget vs. actual and prior year
  - Review vendor payment details
    - Consecutive invoice numbers
    - Different sequence

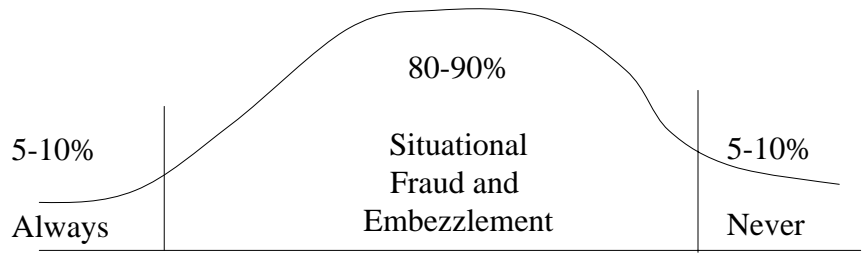
72



## The Triangle of Fraud

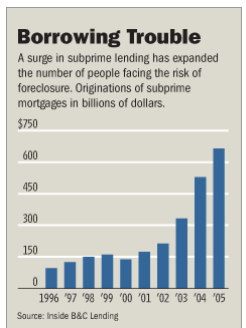
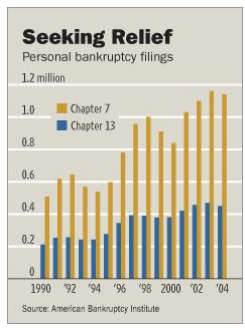


## Situational Fraud and Embezzlement





## Rationalizing Reasons to Steal



## Little Rationalizations



Item Stolen	%
Pens	60
Post-It	40
Envelopes	32
Paper	28
Paper clips	26

Fraud Tip: What month is stealing office supplies the greatest \_\_\_\_\_



## Ethics: Resumes



1. Society for Human Resource Management survey.....  
96% of 2,500 members ALWAYS check references, credentials or both
2. ResumeDoctor.com checked 1,133 resumes for employment dates, job titles or roles, and education
  1. \_\_\_\_\_% had at least one 'inaccuracy'
  2. \_\_\_\_\_% had at least two 'inaccuracies'



77



## Ethics: Why Lie



1. Conceal periods of \_\_\_\_\_
2. Enhance education and/or cover a shortfall
3. "the dog-eat-dog mentality of American society can drive people to exaggerate credentials. People are more anxious about the economy these days than they were in the '90s," David Callahan, *The Cheating Culture*
4. "When you embellish it speaks to your integrity," Deidra Adams, HR Dir., Constellation Energy

78



## Ethics: Does Training Work



1. KPMG found 75% of 4,000 employees saw misconduct in prior year, same as before \_\_\_\_\_
2. Almost everyone has ethics training by \_\_\_\_\_  
so if you don't have ethics when you start work why would you suddenly \_\_\_\_\_
3. Employees whose companies had rigorous ethics programs reported less misconduct, less pressure to bend the rules, more likely to report misconduct BUT ½ said they felt pressure to "do whatever it takes to meet targets"

Fraud Tip: \_\_\_\_\_

79



## Ethics: Snakes in Suits



1. 1 to 2% of population fit definition of psychopath
2. In-depth surveys of 200 executives
3. Who do these describe: charismatic, great storyteller, highly competitive, skillful influencing others \_\_\_\_\_
4. "I found 3.5% had enough traits to suggest they might have \_\_\_\_\_," Dr. Paul Baiak
5. Universities are testing MBA students for ethics BEFORE \_\_\_\_\_

80



## Ethics: Executive Recruiters



1. In depth background investigations of executives
  2. References
  3. Talk to former bosses, peers, subordinates, auditors, bankers not on the resume
  4. Check for credit or legal problems
  5. Does candidate come from company known for 'doing whatever it takes', 'stretching the truth', or 'getting away with everything they can'
- \_\_\_\_\_

81



## Ethics: Driving Unethical Behavior



1. Evaluate performance w/ only quantitative measures
2. Premier Inc. judges employees not just on 'making the numbers' but 'how they make the numbers'
  - Complying with company's code of conduct is used for annual pay calculation
3. Keep track of 'star' performers' activities so you don't have an \_\_\_\_\_

Fraud Tip: \_\_\_\_\_

82

## Ethics: What's the Best Way to Prevent Someone From Stealing



BY APPLYING FOR A JOB WITH \_\_\_\_\_  
YOU AGREE TO THE FOLLOWING BACKGROUND  
CHECKS

1. Criminal
2. Civil
3. Credit
4. Driving

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

83

## Wished They'd Checked



Dave Edmondson  
RadioShack CEO

**James Joseph Minder**  
resigned as chairman of  
Gun maker Smith & Wesson  
when it was discovered he  
had spent \_\_\_\_\_  
for \_\_\_\_\_. Asked why  
he had not disclosed his past.  
His reply? \_\_\_\_\_



84



## Integrity

"Integrity must be accompanied by ethical values, and must start with the chief executive and senior management and permeate the organization. Control systems cannot rise above the integrity and ethical values of the people who create, administer and monitor them," COSO report.



85



## Why Managers Bend the Rules



1. CEO/Owner/Founder larger than life
2. Most are locals
3. Status to work there
4. Compensation structure
5. Cook-the-books
  1. Hit the numbers
  2. Make the numbers
  3. Help the numbers

86



## Why Managers Bend the Rules



1. Starts as one-time, temporary, fix
2. Snowballs and becomes \_\_\_\_\_

3. Franklin C. Brown  
Vice Chairman/General Counsel  
Counsel to Rite Aid CEO for 40+ years  
76 years old  
Backdating contracts + \$25,000 to secretary  
Sentenced to 10 years  
WHY \_\_\_\_\_



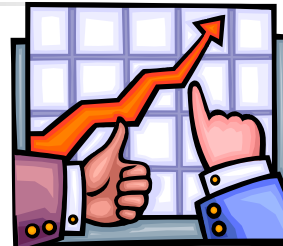
87



## Why Managers Bend the Rules



**No legislation or  
code of conduct  
can guarantee honesty.**



88



## Earnings Management Defined.....



- Did you hear about the company that needed a CFO? Five finalists were given financial information and told to compute net earnings. The first 4 got the right answer, but not the job.
  
- The last candidate got the job when he asked, \_\_\_\_\_



## When Does Juggling the Numbers Become Fraud????



1. Do you manipulate the numbers \_\_\_\_\_
2. Not all GAAP is high quality





## Earnings management

- Selecting and applying GAAP to report desired results instead of reality
  - Inventory
  - Depreciation
- Performance timing
  - Maintenance
  - Inventory obsolescence
  - Sales period
- GAAP sometimes doesn't reflect economic reality
  - R&D

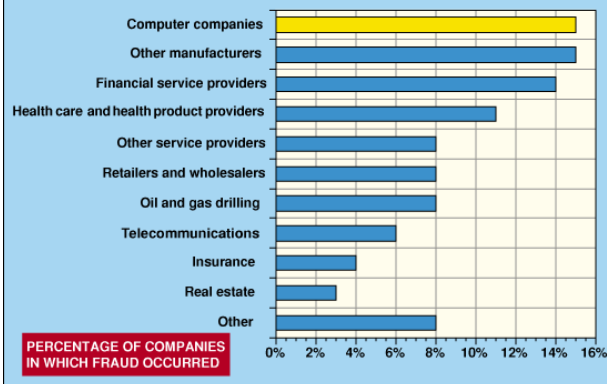


91



## Shedding Light on Fraud

Computer hardware and software companies topped the list of those involved in financial statement fraud.



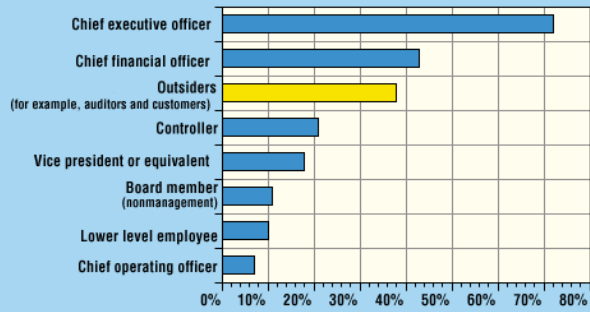
92



## Shedding Light on Fraud

Outsiders—auditors and customers, for example—trailed CEOs and CFOs in committing the most fraud.

### NAMED IN PERCENTAGE OF CASES

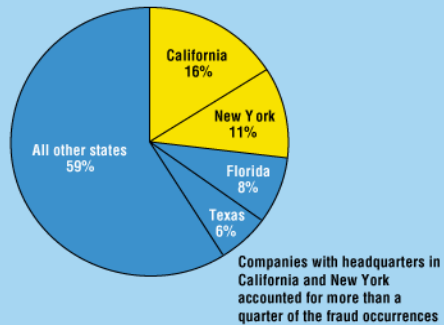


93




## Shedding Light on Fraud

### PERCENTAGE OF FRAUD CASES




94



---

# Revenue and Financial Reporting Fraud

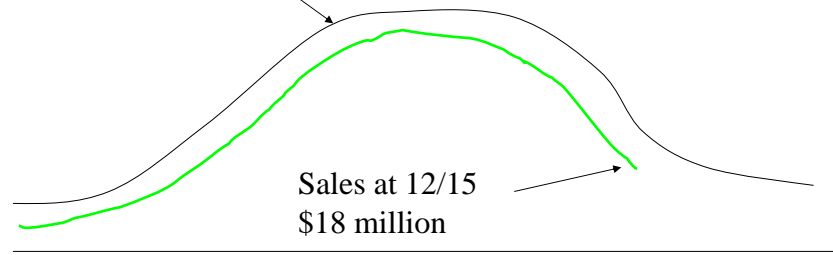
95



---

## The Hockey Stick

Lumber Yard  
3-year average sales  
\$22 million



Sales at 12/15  
\$18 million

Jan

Dec

96



## Sagent Technology

---

1. Software to collect information from databases
2. IPO in 1999 and reached a high of \$43+
3. Company was desperately trying to reinvent itself
4. April 2000 auditors refused to approve \$3.5 million contract
5. Salesman Gary Williams Jones hired in hot dot com bubble as East Coast Federal Sales Director
6. Church, ferrying the elderly to doctors and inviting kids into his home at Christmas
7. East Coast recruiter was supposed check his background

97



## Sagent Technology

---

1. Blond, blue-eyed and blessed with a gift of gab, instinctive feel for people. played football with the San Diego Chargers. began cheating modestly, starting with forging a purchase order of \$172,500 in software to the National Gallery of Art
2. Sent purchase orders with either forged signatures of agency or fictitious employees
3. Submitted \$5million in sales to federal agencies
4. \$428,383 in commissions

98



## Sagent Technology

---

1. Convicted of bank fraud, forgery, Medicaid fraud and larceny in SC and VA
2. Fired from Global Knowledge in Mass. for fabricating \$11 million contract
3. Phony sales for nearly a year
4. Unraveled when an official with the U.S. Navy Medical Systems called to say the authorizing signature of a real-life official was phony
5. Company collapsed in mid-November 2001

99



## Sagent Technology

---

1. Market value dropped by 70% in one day
2. Traded low of 25 cents
3. CEO+CFO fired and restated its financial statements
4. Laid off 20 percent of its employees -- 60 people
5. Shareholder lawsuits
6. Williams gets 46 months in prison

Fraud Tip: \_\_\_\_\_

100



## Sagent Technology

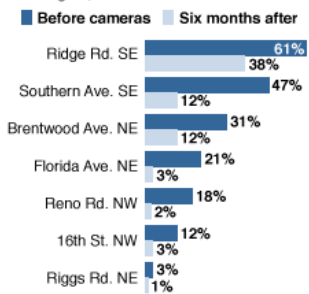
1. "There was absolutely nothing sophisticated about this," said Jones' attorney, federal public defender Barry Portman.
2. Never asked to see an original document
3. Never met a real person at the agencies
4. Sagent execs wouldn't confront Jones
5. Delays blamed on federal secrecy or ineptitude
6. Told CFO he would handle the collections himself
7. Senator will help him



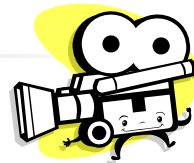
## Controls "Drive" Behavior

### CAUGHT ON TAPE

Percent of vehicles going more than 10 mph above the speed limit before and after speed cameras were installed in various locations in Washington, D.C.



Source: Insurance Institute for Highway Safety

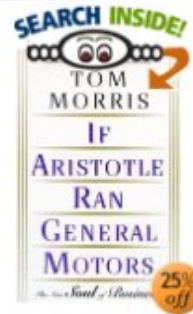




## Cultural Audit



1. "A corporation's culture is what determines how people behave when they're not being watched," Tom Morris
2. "You're trying to help the broad middle strengthen its ethical backbone to resist going along with the evil few," Kirk O. Hanson Exec. Dir. Karkkula Center for Applied Ethics, Santa Clara University
3. Ethics is doing the right thing even when no one's looking.....gdz



103



## Is Ethical Behavior Enough?



1. Profitability is not optimized by only ethical compliance and codes of conduct
2. Cannot *force* people to behave ethically and for benefit of stakeholders
3. Some people have to have a reason to behave ethically and many 'systems' drive unethical behavior

104



## Teaching Employees to Embezzle

1. Away from home
2. Working LOTS of hours
3. Accidentally watches a pay per view movie
4. A/P does what with the \$5
5. Why
6. Employee thinks
7. Employee does what next expense report
8. What did you teach the employee



105



## Hiring Ethical Employees

- Your hands aren't tied \_\_\_\_\_
- Best predictor of future behavior is \_\_\_\_\_
- Background and reference checks
- People will voluntarily talk about ethics
- Everyone who interviews should share, crosscheck and evaluate
- People with low integrity tend to think everyone does it and will brag
- Key: multiple examples
- Show understanding, not \_\_\_\_\_

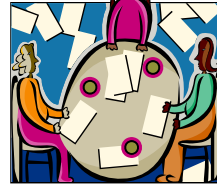


106



## 11 Questions to Hire Ethical Employees

1. We often have to choose between what is right and what is best for the company. Tell me about when that's happened to you.
2. Tell me about the ethics of your company. What are you comfortable and uncomfortable with?
3. Tell about an ethical decision you had to make. How did you make a decision?



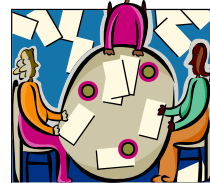
Ask just 2  
or 3, not  
all 11.

107



## 11 Questions to Hire Ethical Employees

4. Why would someone at your company stretch the rules? What did you think?
5. Have you ever had to bend the rules or exaggerate a little to get a sale?
6. Have you ever had to make something seem a little better than it really was?
7. Tell me about a situation where you had to go around company rules to get something done?

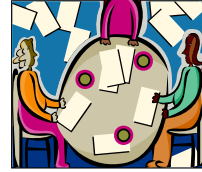


108



## 11 Questions to Hire Ethical Employees

8. We've all done things we later regret. Tell me about one and what you'd do differently today.
9. Have you ever had someone mislead the company or a client significant? How'd you handle it?
10. People think regulations, rules, and policies are either to be followed to the letter or to be broken. You?
11. Have you ever gotten credit for work someone else did? How'd you handle it?



109



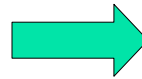
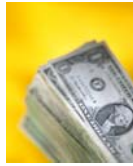
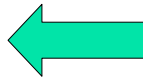
What Are You Doing to Hire and Reward Ethical Employees????

110



## Goal Discongruence

When the 'system' puts the decision-maker in a position of conflict.



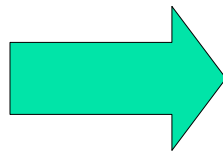
Employee OR Company

111



## Goal Congruence

When the 'system' puts the decision-maker in win-win position.



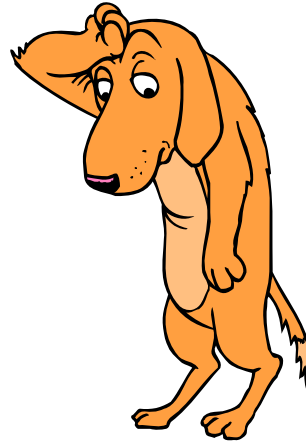
Employee AND Company

112



## Goal Discongruence

*Management has set the target.  
They expect me to achieve it.  
My future, my job could be on  
the line. I want to succeed, and  
I want to please my boss,  
management, and the company.  
I want to look good when  
compared to my peers.*



113



## Goal Discongruence Sales Force

1. Managers accountable for regions' sales goals
2. Established by \_\_\_\_\_
3. Company policy was 'team work'
4. Primary motivators were individual quotas and rewards
5. Result: 'team members' were in competition with \_\_\_\_\_
6. Example: who should get credit for a sale



114

## Goal Discongruence Revenue

1. Software company management set very aggressive sales targets
2. Sales recorded when product shipped
3. End of month → call customers to \_\_\_\_\_
4. Shipments to customers who hadn't \_\_\_\_\_
  1. What do customers then do \_\_\_\_\_
5. Not enough? Ship to \_\_\_\_\_
6. Company went bankrupt because management didn't understand the \_\_\_\_\_



115

## Defective Compensation Systems



"30 Minutes or It's FREE"

Long-haul trucking



See [Does your compensation system encourage illegal activity?](#) on web site

116



## Melt Down Over Pay System



Siemaszko

1. FirstEnergy Corp caused BIG power 'blackout
2. Recently fined \$28 million for near melt down
3. Cooperate in prosecuting 3 former employees
4. Engineers Siemaszko and Geisen were each indicted on five counts and contractor-consultant Cook was indicted on four
5. Each could get 5 years + fine of \$250,000
6. Company avoided criminal prosecution because it changed its culture



## Melt Down Over Pay System

1. Workers covered up the most extensive corrosion ever seen in a plant
2. "Company and NRC concluded that the rust hole had been growing for \_\_\_ years and that Davis-Bessie managers had ignored the evidence because they were focused on \_\_\_\_\_ rather than safety."



Rust  $\frac{3}{4}$  way through 6" steel cap



## Melt Down Over Pay System

---

1. Davis-Besse case changed the way the NRC regulates the nuclear industry
2. NRC increased inspection routines and instilled a more "questioning attitude"
3. NRC beefed up training and required more detailed records of discussions with plant operators

Fraud Tip: These changes sound like \_\_\_\_\_

119



## Fraud Tip

---

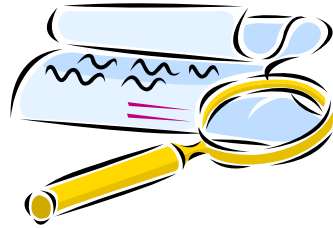
1. People behave the way you \_\_\_\_\_
2. To align company and employee goals so employees will do what's in the best interest of the company  
\_\_\_\_\_



120



## Payroll and Expense Schemes



Fraud Tip: Payroll and expense reimbursement are so routine that owners, management, supervisors usually don't \_\_\_\_\_

121



## Ghost Employees



1. Fake employee on payroll
2. Least common but most costly
3. Most common in large organizations because employees \_\_\_\_\_
4. What's required:
  - Add a new employee or keep a former employee
  - Hourly – prepare and insert timesheet

122



## Minimizing Ghost employees



1. Different employees add/maintain employee records vs.. check prep and distribution
2. ID
3. Match payroll with employee list
4. Check employee number sequence
5. Do payroll deductions make sense
6. Does net payroll = funds transferred



## Minimizing Ghost employees



7. Do all employees have personnel files
8. Check for former employees on payroll
9. Duplicate addresses/SSNs/deposit account #s
10. Reconcile account by someone not in payroll system
11. Review endorsements for multiple paychecks to same person
12. Reconcile payroll accounts to control accounts



## Overstatement of Hours Worked



1. Most common
2. Individually small but can be BIG if \_\_\_\_\_
  - Becomes part of company culture
3. 16% of employees report witnessing E&Y 2002 survey

125



## Overstatement of Hours Worked Manual Systems



1. Manipulating
  - Forge supervisor's signature
  - Change timesheets after approval
  - Supervisor \_\_\_\_\_
2. Controls
  - Review by someone who knows \_\_\_\_\_
  - Control timesheets after \_\_\_\_\_
  - Send timesheets directly and timely to payroll
  - Formal process for corrections

126

## Overstatement of Hours Worked Computerized Systems



1. Most common
  - Employees clock others in/out
  - Front-line workers
2. Controls
  - Supervisor monitor or video camera
  - Passwords or fingerprints
    - Periodically change

127

## Overstatement of Pay Rates



1. Usually office workers or someone who can change master file
2. Preventive controls
  - Segregate authorization of pay rates from entry
  - Password protect access
  - Signed forms by supervisor and/or employee
3. Detective controls
  - Review and approve prior to check distribution
  - Hours X Rate (\_\_\_\_\_ ) = Payroll register

128



## Payroll Withholding Schemes



- Overage to themselves to get a LARGE \_\_\_\_\_
- 1 Payroll clerk withholds too little of own pay but remits too much
  - Match remittance to \_\_\_\_\_
- 2 Payroll clerk withholds too little of own pay but over withholds from other employees
  - TOTAL withholdings are \_\_\_\_\_
  - Can be used on any \_\_\_\_\_
- Outside payroll service

129



## Reverse The Withholdings



1. Supervisor got payroll software tech to "open" the field codes so she could \_\_\_\_\_
2. So Federal, state, local taxes, Social Security and other withholding were \_\_\_\_\_
3. She then put the payroll service CDs in deck drawer
4. Using her own desktop software she generated fake reports so the totals matched amount disbursed
5. How did she cover \$\$ paid to herself \_\_\_\_\_
6. Cost to company \$ \_\_\_\_\_

130



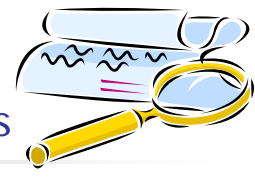
## Expense Schemes



1. Best protection
  - Segregation of duties
  - Comprehensive review and approval
2. *but* difficult to CONTROL if top management
  - Review by board, internal or external auditor even if has to be after the fact



## Fictitious/Duplicate Expenses



1. Easy to create/duplicate receipts with \_\_\_\_\_
2. Fill in blank copies of receipts \_\_\_\_\_
3. Submit same receipt on \_\_\_\_\_
4. Submit different receipts for same expense \_\_\_\_\_
5. Submit receipt paid by another organization
  - Employee on industry association board/comm
6. Submit receipt for items paid directly
7. Two employees submit receipts for same \_\_\_\_\_

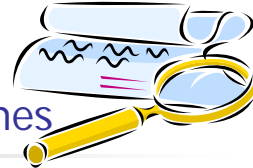
## Fictitious/Duplicate Expenses Prevention and Detection



1. Cross-check between employees
2. Compare employee's sequential expense reports
3. Submit within specified time to \_\_\_\_\_
4. Compare expense reports with AP for direct pays

133

## Airfare and Travel - 3 Schemes



1. Travel never taken but turns in \_\_\_\_\_
2. Tickets for companions buy one at full fare get second \_\_\_\_\_
3. Switching tickets
  - Buy 2 tickets for legit trip
  - 1<sup>st</sup> is advance low price ticket
  - 2<sup>nd</sup> is last minute high priced refundable ticket
  - Cancel second ticket
  - Keeps \_\_\_\_\_



134



## Controlling Travel Schemes

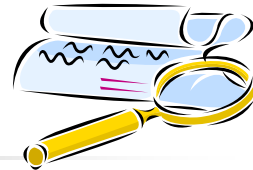


1. Preventive controls
  - Pre-approval
  - Proof of trip (get \_\_\_\_\_)
2. Detective controls
  - Cross-check ticket numbers
  - Employee's name on supporting docs
  - Match dates on tickets to hotel/meals/timesheets

135



## Personal Purchase Schemes



1. Hard to say no if top management \_\_\_\_\_
2. Preventive control
  - Pre-approval best but not practical for travel exp
  - Does AP have a reason to pay attention
3. Detective controls
  - \_\_\_\_\_ invoices or receipts
  - Check name and address on invoice/receipt
  - Name/org of everyone on meal receipt
  - Examine receipts for non-business items

136



## Wal-Mart Fake Expenses

1. Vice Chairman and No. 2 executive
2. Submitted fraudulent expenses + illegal gift card use for \$500,000
3. Guilty of wire-fraud and tax-evasion
4. Nearly all for personal expenses
5. "I'm reimbursing myself for funding secret anti-union spying campaign, so I don't have any \_\_\_\_\_."
6. 51 \$100 gift cards for company All-Stars



Thomas Coughlin

137



## Wal-Mart Fake Expenses

1. Bought 3-12 gauge shotguns, puppy chow Celine Dion CD, vodka, wine, fishing license, \$3.54 Polish sausage
2. Caught when he presented a gift card to buy contact lenses and clerk couldn't understand why he was an All-Star
3. Sentence: 27 months home detention + 5 years probation, no jail (8/10/06) \$50,000 fine + \$400,000 restitution



Thomas Coughlin

Fraud Tip: WHY \_\_\_\_\_

138

## Wal-Mart Fake Expenses

1. VP Robert Hey, Jr., 42
2. 3 counts of wire fraud=30 years + \$1 million \_\_\_\_\_ for aiding and abetting but plead guilty for probation
3. Between 1997 and 2004 "used his position to....illegally manipulate the employee travel reimbursement and vendor invoice accounting system at WalMart to embezzle monies, gift card and products, which were provided to a senior WalMart executive for the executive's personal benefit and use."

WARNING: \_\_\_\_\_



139

**Dear Abby:** I have owned a business for 13 years. Recently, one of my employees forged a customer's check in the amount of \$1,000. I have tried to talk to him and ask why, and I have threatened to go to the police. We have more than just a working relationship. We did a lot of things together outside work but never had a sexual relationship.



This man worked for me for more than two years and, other than this crime, was a perfect employee. He insists that he didn't forge the check that he had cashed at the customer's bank and tries to justify it by saying he deserved the extra money. I always paid him on time and gave him many perks. Please help me....Lost Big-Time

**Dear Lost:** Wake up! Your "perfect employee" is a thief, a forger and a sociopath. He might be a charmer — aren't they all — but that's what has enabled him to reach the point he has.

For your emotional wellbeing and for the sake of your business, please tell the police what you have learned. If you don't, the next person to be burned will be you. Bank on it.

140



## How to Deter Employee Fraud



1. Know the risks in your business
2. Make your views on fraud known
3. Create a culture that frustrates fraud
4. Ensure that your internal controls are effective
5. Make certain that personnel policies are effective
6. Review disciplinary policies

141



## How to Deter Employee Fraud



1. Perform thorough background and reference checks on all new employees
2. Review and improve internal controls
3. Written code of conduct
4. Establish an employee hotline
5. Never drop your guard. Never ignore "red flags"
6. Fraud response plan
7. Internal audit to detect fraud
8. Train senior management in fraud detection and prevention
9. Expand Board of Directors oversight
10. Create a positive work environment

142



## Ben Wright, Esq.



- The Law of Fraud
- Document Destruction and Retention
- Private Securities Litigation Reform Act
- Altering or destroying workpapers is a \_\_\_\_\_
- If workpapers are incomplete can't issue an \_\_\_\_\_



143



## Dunlap Cannon



- Real estate attorney
- \$1 million income
- Father
- Life style issues
- Bank accounts
- Fraud lesson \_\_\_\_\_

144



## Jesse Oddi

- Clerk of Courts
- Financial stress
- \$450,000 embezzlement
- 5+ years
- NM Municipal League
- Fraud lesson \_\_\_\_\_



145



## SAS 99 Mark Morze

- Pepperdine University
- Toastmaster Speaking Champion
- Fraud: Ex-Con Tells All Part II
- CFO, ZZZZ Best Carpet Cleaning
- 10,000 phony documents
- \$50 million of revenue, 86% was \_\_\_\_\_
- "If you were my auditor, \_\_\_\_\_"



146

## Embezzlement Walt Pavlo



- Mid-level manager at MCI
- \$6 million embezzlement
- KPMG
- Association of Certified Fraud Examiners
- CNBC
- Fraud lesson \_\_\_\_\_

147

## Corporate Identity Theft John Kammin



- Professional identity thief
- Assists law enforcement
- Trains banks how to protect themselves
- Fraud lesson \_\_\_\_\_

148

## Financial Reporting Fraud Nick Wallace



- President ESM Government Securities
- \$350 million fraud
- Bankrupted 69 S&Ls
- 2 suicides
- Wallace serves 6½ years
- Gomez goes to prison
- Fraud lesson \_\_\_\_\_



Jose Gomez, Partner  
Alexander Grant  
A&A South Florida  
149

## Embezzlement TeriLyn Norwood



- Accounts payable supervisor
- \$18,000 embezzlement
- Financial stress
- Profiled in WSJ
- Montel Williams Show
- Fraud lesson \_\_\_\_\_



## Bank Fraud Dave London



- Bank president
- Gambling
- Embezzlement
- CFO figured it out
- 33 months
- Fraud lesson: If you're doing something wrong and someone figures it out you don't \_\_\_\_\_

151

## Barry Minkow

- CEO ZZZZ Best
- Senior Pastor
- Fraud Discovery Institute
- Fee \_\_\_\_\_

**CBS NEWS**  
August 22, 2005 11:02pm ET  
The Early Show | CBS Evening News | 48 Hours

**60 MINUTES** | Section Front  
E-mail This Story | Printable Version

**It Takes One To Know One**  
(Page 1 of 2)  
May 22, 2005

**FREE VIDEO**  
Teaching About Fraud

**(CBS)** If you were going to start a Hall of Fame for con men, Barry Minkow would have to be one of the first inductees. He was one of the most famous stock swindlers of the '80s, and certainly the youngest. At 20, he was the boy wonder of Wall Street, and CEO of a \$300 million company. At 22, he had been convicted of 57 counts of fraud, and was off to federal prison.

Now 39, Minkow is back in the spotlight, not for committing fraud, but for exposing it. He says he is seeking redemption by going undercover to help federal law enforcement agencies crack a number of important cases, proving that when it comes to con men, it takes one to know one. Correspondent Steve Kroft reports.

Barry Minkow, a former con artist who now exposes scams, takes 60 Minutes' hidden cameras on an investigation. (Photo: CBS)

CBSNEWS.COM

152



## Profiled in.....



- WSJ
- NYT
- CFO
- Sunday Herald (Canada)
- Miami Herald
- National Post (Canada)
- Business First
- San Antonio Express
- Washington Post
- Report on Fraud (Kroll Int'l)
- Risk Management Journal
- Spirit
- Houston Chronicle
- Baltimore Sun
- Forbes
- Denver Post



## In-House Training

- SEC
- Dept of Justice
- FBI
- Federal Reserve Bank
- National Association of Securities Dealers
- Old Republic Title Company
- NationalLease
- Southern Gas Association
- Retail Industry Leaders Assn
- Young Presidents Organization
- National City Bank
- National Rural Electric Coop
- SAS Institute Inc.
- American Corporate Counsel
- Am Society of Industrial Security





## In-House Training CPA Firms



- Mellott & Mellott
- Yeo & Yeo, P.C.
- Scott + McElveen
- Bowman & Company
- Grant Thornton
- KPMG Peat Marwick
- Berry Dunn McNeil & Parker
- Olsen, Thielen & Co.
- Packer, Thomas & Co.
- Hahn Loeser & Parks
- Cindrich, Mahalak & Co.
- The Morehouse Firm
- Boulay, Heutmaker, Zibell
- Suby VonHaden & Associates
- Blackman & Sloop, CPAs
- Deloitte & Touche
- Rea + Associates
- Summers Spencer & Callison, CPAs