GAME OF FRAUDS
TO CATCH A THIEF

FRAUD

* NOUN \"FRAUD\" "DECEIT, TRICKERY, SHARP PRACTICE, OR BREACH OF CONFIDENCE, PERPETRATED FOR PROFIT OR TO GAIN SOME UNFAIR OR DISHONEST ADVANTAGE"
FRAUDSTERS DO WHAT?
THINKING AND LEARNING THE LANGUAGE OF A FRAUDSTER
FRAUD
* 7% of corporate revenue is lost to fraud ($9 per employee or $994 billion total)

* In small businesses (less than 100 employees), the median loss is $175,000

* The average fraud lasts for over 2 years

SOURCE: 2008 REPORT ON OCCUPATIONAL FRAUD

WHO
COMMITS
FRAUD?
AGE
* OVER 60 – 2.0% ($527,000)
* 51 – 60 – 15.1% ($250,000)
* 41 – 50 – 32.0% ($173,000)
* 36 – 40 – 16.2% ($80,000)
* 31 – 35 – 18.0% ($75,000)
* 26 – 30 – 10.7% ($25,000)
* LESS THAN 26 – 5.9% ($18,000)

CRIMINAL HISTORY
* NEVER CHARGED OR CONVICTED - 82.9%
* HAD PRIOR CONVICTIONS - 11.6%
* CHARGED BUT NOT CONVICTED - 5.5%
TIME ON JOB
* LESS THAN 1 YR – 6.7% ($26,000)
* 1 – 2 YEARS – 20.0% ($50,000)
* 3 – 5 YEARS – 27.0% ($98,000)
* 6 – 10 YEARS – 22.8% ($120,000)
* MORE THAN 10 YRS – 23.5% ($171,000)

EDUCATION
* POSTGRADUATE DEGREE – 9.1%
* BACHELOR DEGREE – 41.5%
* HIGH SCHOOL OR LESS – 49.5%
DETECTION OF FRAUD

* NOTIFIED BY POLICE  0.9
* EXTERNAL AUDIT  10.9%
* INTERNAL CONTROLS  18.4%
* BY ACCIDENT  21.3%
* INTERNAL AUDIT  23.8%
* TIP 39.6%

“THE INFECTIONOUSNESS OF CRIME IS LIKE THAT OF THE PLAGUE.”

- NAPOLEON
Four Elements of Fraud

1. Commission of the act itself
2. Intention to commit the act
3. Concealment of the act
4. Loss

Fraud Triangle

Motive

Opportunity

Rationalization
Motive

* Pressure placed on managers to perform
* Unusually high personal debt
* Excessive gambling habit
* Undue family or peer pressure to succeed
* Alcohol or drug problems

He who dies with the most toys wins.

- Malcolm Forbes
OPPORTUNITY
* KNOWLEDGE OF WEAK INTERNAL CONTROLS
* ACCOUNTING ANOMALIES ARE NOT MONITORED
* LACK OF SUPERVISION
* UNETHICAL TONE AT THE TOP
* BELIEF THE EMPLOYEE WON'T GET CAUGHT

THE HUMAN HEART IS AN IDOL FACTORY.

- JOHN CALVIN
ABILITY TO RATIONALIZE

* Employee believes he or she is not being adequately compensated for the work – the organization owes them

* Feeling of insufficient recognition for job performance

* Personal need for more money

* Many employees who commit fraud fully intend to return the money

"A STRANGE MELANCHOLY ... haunts the inhabitants in the midst of abundance. The incomplete joys of this world will never satisfy the human heart."

-Alexis de Tocqueville, on America
“A man’s life does not consist in the abundance of his possessions”.

- Jesus

(Qouted by Luke 12:15 in the 1st century)
DETECTION

VS.

DETERRENCE

DETECTION

* INVOLVES A REVIEW OF HISTORICAL TRANSACTIONS TO IDENTIFY INDICATORS OF A NON-CONFORMING TRANSACTION
DETERRENCE

* THE PROACTIVE IDENTIFICATION AND REMOVAL OF THE CAUSAL AND ENABLING FACTORS OF FRAUD.
* ANALYZING THE ENVIRONMENT, CONDITIONS, PEOPLE. ESSENTIALLY LOOKING INTO THE FUTURE BASED ON THE CURRENT CLIMATE AND CONDITIONS AND ELIMINATING THE FACTORS THAT MAY CAUSE FRAUD.

DETERRENCE

MINORITY REPORT
EVERYBODY RUNS
COMMON SCAMS

BEST FRAUD TODAY
MAKE YOUR OWN DUMMY RECEIPTS
THIS IS THE LARGEST CURRENT EMPLOYEE FRAUD TODAY
CHECK TAMPERING

* WORKER CREATES PHONY OR ALTERED PAYEES
* WORKER STEALS BLANK CHECK AND SPLITS TAKE WITH PAYEE

TOP 7 CLUES

1. INCENTIVES
2. DUMP OLD ACCOUNTS
3. FRAUDSTERS LIKE FAKE BACKUP
4. PIGS GET FAT HOGS GET SLAUGHTERED
5. FRAUDSTERS ARE PATIENT
6. ARE YOU THE CIPHER?
7. SNEAKERS”
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