

# FRAUD: A Web Of Deceit

Presented by:  
Tessa Filippazzo, CPA, CFE  
Curtis Blakely & Co., P.C.  
PO Box 5486  
Longview, TX 75608  
(903) 758-0734  
tfilippazzo@cbandco.com

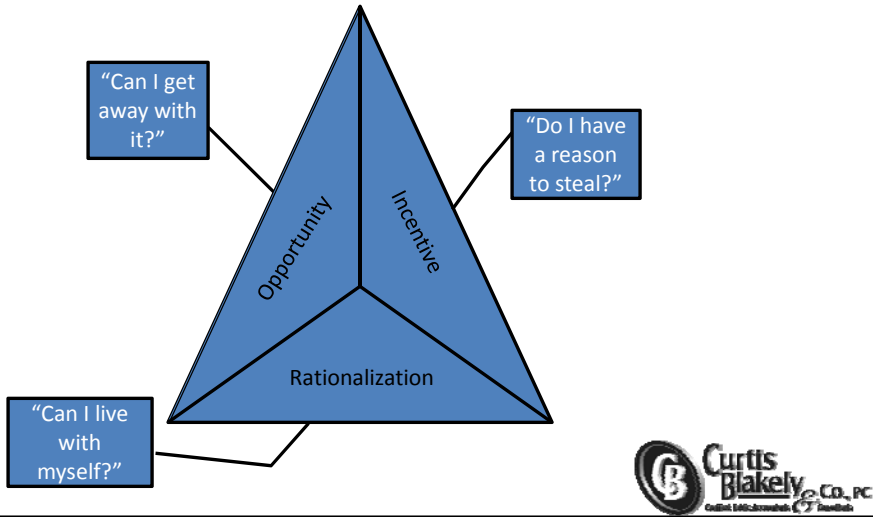


## DEFINITION

- ❖ Intentional perversion of truth in order to induce another to part with something of value or to surrender legal right
- ❖ An act of deceiving or misrepresenting



# FRAUD TRIANGLE



# OPPORTUNITY

**Opportunity is created when there are weaknesses in controls.**

- ❖ Is there adequate segregation of duties?
- ❖ Does your organization allow/tolerate management override of existing controls?
- ❖ Do your controls follow the complete process?
- ❖ Are controls re-evaluated when duties are re-assigned?
- ❖ Are controls tested or verified periodically?
- ❖ Is there adequate management review or oversight?



# INCENTIVE

**Also known as the motivation or pressure to commit fraud.**

- ❖ Living beyond means
- ❖ Addiction or legal problem
- ❖ Life changing event



# RATIONALIZATION

**Controversial behaviors are logically justified to be consciously tolerable.**

- ❖ Borrowing – “I am in a bind this one time. I’ll just borrow the money until next payday”
- ❖ Entitlement - “I’m over-worked and under-paid. That’s all this is – a raise”
- ❖ Management – “I see what management gets away with, so this little amount doesn’t even compare to what they do.”



## STATISTICS

### According to the ACFE 2012 Global Fraud Study: Report to the Nations on Occupational Fraud and Abuse [1,388 cases]

- ❖ Survey participants estimated that the typical organization loses 5% of its revenue to fraud each year.
- ❖ The median loss caused by the occupational fraud cases in the study was \$140,000.
- ❖ In the study, the frauds that were reported lasted a median of 18 months before being detected.
- ❖ Occupational fraud is more likely to be detected by a tip than by any other method. [43.3% in 2012]
- ❖ In 81% of the cases reported, the fraudster displayed one or more behavioral red flags.

[http://www.acfe.com/uploadedFiles/ACFE\\_Website/Content/rtn/2012-report-to-nations.pdf](http://www.acfe.com/uploadedFiles/ACFE_Website/Content/rtn/2012-report-to-nations.pdf)



## OCCUPATIONAL FRAUD

**Asset Misappropriation** – misuse of a company asset for personal gain.

**Corruption** – the wrongful use of influence to procure a benefit for the perpetrator or another person, contrary to the duty or the rights of others.

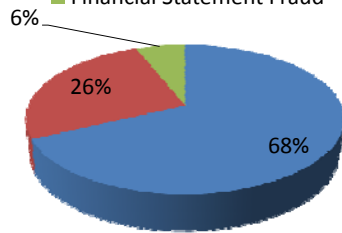
**Financial Statement Fraud** – the deliberate misrepresentation of the financial condition of a company through intentional misstatement or omission of amounts or disclosures in the financial statements to deceive the financial statement users.



# OCCUPATIONAL FRAUD

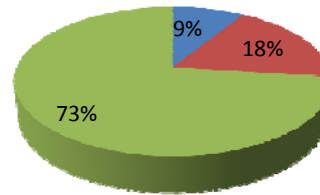
## Frequency

- Asset Misappropriation
- Corruption
- Financial Statement Fraud



## Median Loss

- Asset Misappropriation
- Corruption
- Financial Statement Fraud



2012 ACFE Report To The Nations



# ASSET MISAPPROPRIATION - CASH

## Theft of Cash Receipts

- ❖ Skimming – Employee pockets the receipt and doesn't record the sale
- ❖ Cash Larceny – Employee steals receipts before they are deposited

## Fraudulent Disbursements

- ❖ Billing – Fictitious Vendor
- ❖ Expense Reimbursement – Duplicated, Personal, or Non-existent Expenses
- ❖ Check Tampering – Blank Checks, Check Altering
- ❖ Payroll – Ghost Employees, Fraudulent Time Reporting
- ❖ Online Banking – Unauthorized Bank Transfers

## Other Schemes

- ❖ Misappropriation of Cash on Hand
- ❖ Non-Cash Misappropriations – Inventory Theft



## RITA CRUNDWELL CASE

- ❖ Comptroller for City of Dixon, Illinois
- ❖ \$80,000 annual salary
- ❖ Accused of stealing \$53 million dollars since 1990
- ❖ Opened secret bank account
- ❖ Family members collected mail in her absence
- ❖ Joint owner allowed control of account
- ❖ Transferred city funds to bank account
- ❖ Disbursed funds for personal use



## CORRUPTION

### Conflicts of Interest

- ❖ Purchase Schemes
- ❖ Sales Schemes

### Bribery

- ❖ Bid Rigging
- ❖ Invoice Kickbacks

### Illegal Gratuities

### Economic Extortion



## FINANCIAL STATEMENT FRAUD

- ❖ “Cooking The Books”
- ❖ Lowest in occurrence
- ❖ Highest median losses
- ❖ Typically perpetrated by upper management
- ❖ Enron, WorldCom, Olympus



## FINANCIAL STATEMENT FRAUD

### Common Financial Statement Fraud Schemes

#### Revenue Recognition or Timing Scheme

- ❖ Premature recording of a sale
- ❖ Most common form of financial statement fraud

#### Fictitious Revenue

- ❖ Recording fictitious revenue with offsetting debit to asset
- ❖ One of the oldest financial schemes around

#### Concealed Liabilities

- ❖ Improper recording or under-reporting of expenses
- ❖ Shifting expenses from one entity to another
- ❖ Reclassifying liabilities as a reduction to an asset



# FINANCIAL STATEMENT FRAUD

## Common Financial Statement Fraud Schemes

### Inadequate Disclosures

- ❖ Used to “cover up” the fraud
- ❖ Omitting disclosures
- ❖ Creating complex disclosures that confuse the user

### Improper Asset Valuation

- ❖ Form of profit manipulation
- ❖ Unusual, unexplained increases in assets
- ❖ Odd relationships of assets to other components of financial reports (i.e. increase in receivables without an increase in sales)



# FRAUD DETECTION

## Most Common Fraud Detection Methods

- ❖ Tips (Hotline, Open Door Policy)
- ❖ Account Reconciliation
- ❖ Management Review
- ❖ Internal Audit
- ❖ External Audit

## Behavioral Warning Signs

- ❖ Living Beyond Their Means
- ❖ Experiencing Financial Difficulties
- ❖ Exhibiting Control Issues
- ❖ Reluctancy To Take Vacation

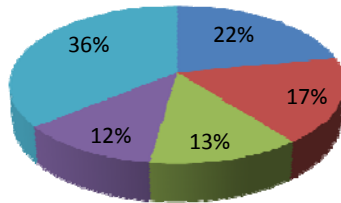




## FRAUD DETECTION (CONT)

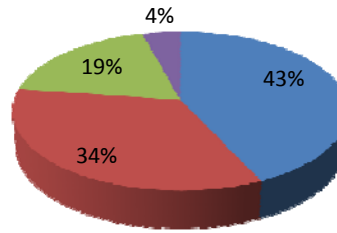
### Department

- Accounting ■ Operations
- Sales ■ Exec/Mgmt
- Other



### Perpetrator

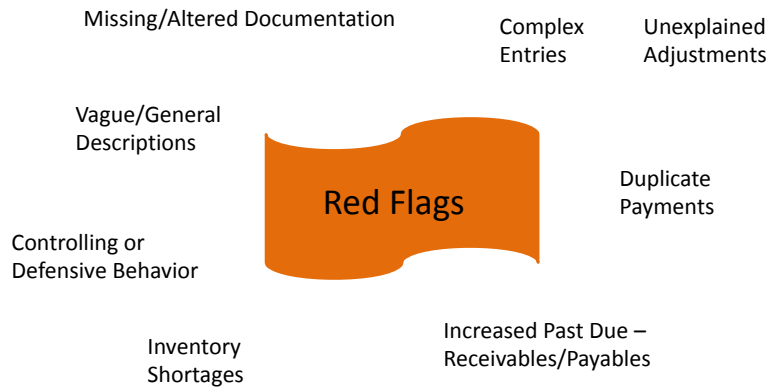
- Employee ■ Manager
- Owner/Exec ■ Other



2012 ACFE Report To The Nations



## FRAUD DETECTION (CONT)



# PREVENTION, DETECTION & DETERRENCE

## What Can You Do?

### Fraud Prevention Is Key

- ❖ Mitigate Opportunity
- ❖ Strong Internal Controls
- ❖ Segregation Of Duties
- ❖ Management Oversight

### Fraud Detection

- ❖ Timely Reconciliation & Review
- ❖ Recognize Warning Signs (Incentive/Motive)
- ❖ Tip Hotlines

### Fraud Deterrence

- ❖ Tone At The Top (Rationalization)

