

# Fraud

## Exploring Challenges & Opportunities for Internal Auditors

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Belief → Action → Results

"The sack needs grain."

The Samians & the Spartans  
The Histories by Herodotus

# Some Concepts

- **There are dangers associated with responding to fraud.**
- **In a high integrity environment it is safe to surface problems.**
- **Those addressing fraud must first deal with management beliefs.**

WGO?

# 10 Challenges

1. **Accepting the extent of fraud**
2. **Undefined fraud-related expectations for managers**
3. **A culture that won't tolerate problem identification**
4. **Tigranic Effect – the bearer treatment**
5. **For auditors – detecting that which they should detect**
6. **Encouraging complete investigative response**
7. **Performance pressures**
8. **Unrealistic expectations about growth & yields**
9. **Evolving technology**
10. **Decisions driven by emotions and ego rather than evidence**

Too Much

Too Long

Not  
Detected

Mishandled

# Cases of Interest...aside

From Eco meltdown of 2007-8

New York City Time project

Quebec Construction - Charbonneau

Best Buy Procurement Fraud



# New York CityTime Project

*\$63  
Million*

*\$700  
Million*

*3 years? 5 years? 7 years?*

*When should someone notice?*

**What do these cases  
have in common?**

# In common:

- ✓ *Too much*
- ✓ *Too long*

*&...*

*Not detected internally*

# **What *seems to be* going on?**

- **Problems abound...**
- **Leaders act without understanding risks.**
- ***All in and don't know it!***
- **Ignoring known risks.**
- **Ignoring early warning signs**

## **SO WHAT IS THE IMPACT?**

**Corporations and government are struggling with a wide range of problems.**

- **Significant dishonest and fraudulent activity**
- **Failed mergers and acquisitions**
- **Investment losses**
- **Runaway systems projects**
- **Write-offs**
- **Construction project failures**
- **Systems that don't work – at all or as intended**

# Peril

What leaders think is happening  
may not be  
what is really happening!

**Peril = Opportunity**

**Leaders need auditors...**

**To Tell Them  
What Is!**

# **BE DIRECT**

*Avoid mitigating language*



# **Commit to candor.**

***“I would call lack of candor the biggest dirty little secret in business. Lack of candor blocks smart ideas, fast action, and good people contributing all the stuff they’ve got. It’s a killer.”***

Jack Welch

# **Build IA Credibility by Being Part of the Fraud Solution**

- **Fraud can make a career or destroy it.**
- **Fraud can be challenging.**
- **Fraud can be dangerous.**
- **Detecting and responding to fraud can help us understand WGO.**

*Three Questions  
For the CEO*

# **How would you prefer fraud to surface?**

**Qui Tam Relator**

**FBI seizing records**

**60 Minutes & their cameras**

**Wall Street Journal & NY Times**

**Hotline**

**Your own management**

**Your own internal auditors**

**Your external auditors**

# *Best time to address fraud?*

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**Early**

**Later**

**Too**

**Late**

# **Fraud Policy – *The Magic Sentence***

***Management is responsible for knowing the exposures to fraud for their areas and for detecting suspected wrongdoing.***

# Auditor Responsibility For Detection

NSINNOJ  
ARRFSFD

# **Build Detection into Routine Audit Activity**

- **Be incident oriented**
- **Brainstorm fraud exposures**
- **Build program steps to surface symptoms**
- **Follow up on all symptoms**
- **For unbelievable lifestyle or generosity, audit the area**



OMTM

# Use Technology

- **K Y Y**
- **Data Mining**
  - **Your own data**
  - **Third party data**
  - **Follow through**

**Most useful applications?**

# Audit Third Parties

- For cost recoveries
- To improve processes
- To identify corruption

What have been the results?

**Be part of a complete  
investigative response**

# More Cases of Interest

HP Acquisition Write-down

Pharma settlements - off label selling

# **Courtenay Thompson, Jr.**

Provides practical experience based fraud training to managers, auditors, and investigators.

With colleagues, offers courses addressing fraud, construction costs, health benefits, data mining, auditing contracts, audit interviewing, and increasing personal and professional effectiveness.

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