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

Not Detected

Too Long

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 City Time 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?

- Early
- Later
- Too Late
Management is responsible for knowing the exposures to fraud for their areas and for detecting suspected wrongdoing.
Auditor Responsibility
For Detection

NSINOJ
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
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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