



UTD Fraud Conference 2019

FRAUD MYTHS & MISCONCEPTIONS



WELCOME

Why do Fraud Myths & Misconceptions exist?

It makes for great TV!



FANTASY FRAUD PROCESS

Fraud Tip
Reported/Discovered

A Miracle Happens

Perpetrator Goes to
Jail



FRAUD ALWAYS OCCURS IN THE *5 P's*

PAYABLES

PHYSICIAN FEES

PROCUREMENT

PAYROLL

PARKING



OTHER FRAUD AREAS

PRINT SHOP

PHYSICAL PLANT

PRECIOUS METALS

PETTY CASH

PERSONNEL BENEFITS



**ONLY BAD PEOPLE
COMMIT FRAUD**



LONG TERM TRUSTED EMPLOYEES COMMIT FRAUD

Most Frauds occur from long term trusted employees

They know the system

They know if someone is reviewing or performing analysis


They know how to circumvent the rules to “get things done”



IT DOESN'T HAPPEN HERE

Fraud happens everywhere, you just don't know it

- Remember Occam's Razor – the simplest solutions are more likely to be correct than complex ones.
(Cafeteria Operation)
- ACFE – states fraud amounts to 50% of cases detected by a tip
- Internal Audit detects 15% of cases (seems high)
- 1 – 2% of revenue

 Auditor's "skepticism" should be highly emphasized in every audit. If the department states they have long term trusted employees in the job, additional testing should be conducted.



RED FLAGS OF FRAUD

Can you recognize them?

Living beyond means

Close association with Vendors

Control issues – unwilling to share duties

Wheeler-Dealer attitude

Irritability and defensiveness

Financial difficulties

Complain about inadequate pay (Derm Case)

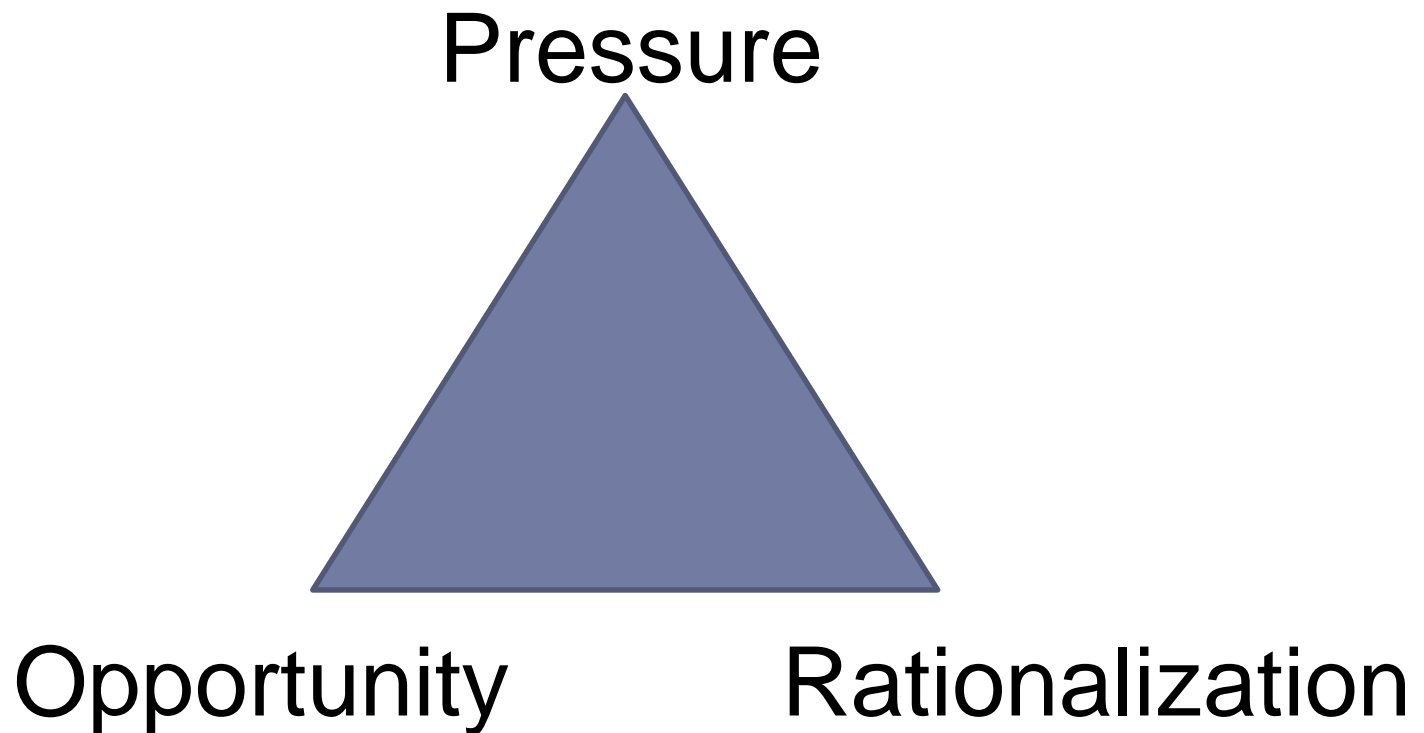
Excessive pressure from within the organization

Divorce/Family problems

When you interview someone, do you conclude on their veracity as a subject matter expert?



FRAUD TRIANGLE





FATHER OF FRAUD TRIANGLE

Donald Cressey – 1951 article “Why Do Trusted Persons Commit Fraud? A Social-Psychological Study of Defalcators” in the Journal of Accountancy and on page 973 of his 1953 book, “Other People’s Money, A Study in the Social Psychology of Embezzlement”

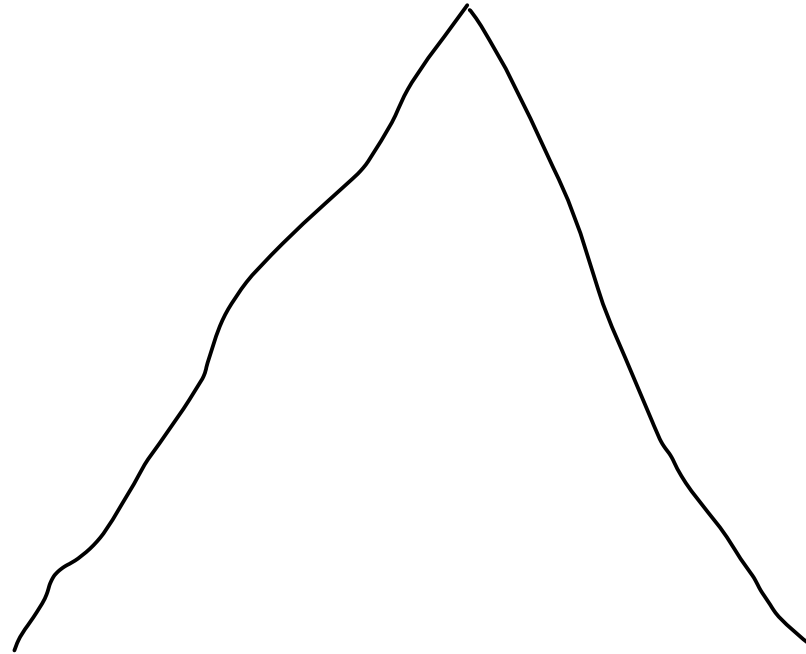
He states there must be: 1) a non-sharable problem, 2) an opportunity for trust violation, and 3) a set of rationalizations that define the behavior as appropriate in a given situation

None of these alone would be sufficient to result in embezzlement, all three must be present



FRAUD BI-ANGLE (ANGLE)

Pressure & Opportunity





FRAUD BI-ANGLE (ANGLE)

Pressure & Opportunity

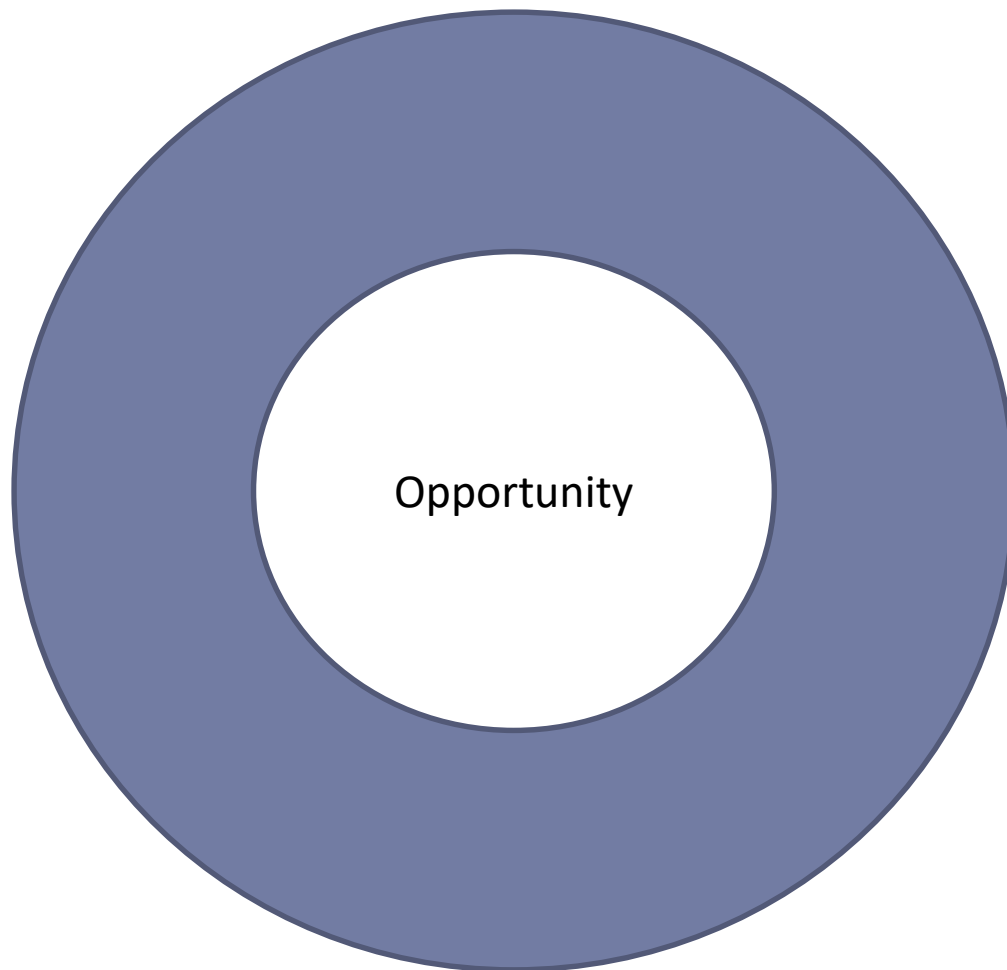
Donald Cressey never met Madoff, Ebers, Bobby Joe

I want to be the father of the Fraud Angle, and I would suggest only two factors or less need to be present for embezzlement to occur

I think rationalization is overrated due to the high degree of narcissism present in our society. NPD was to be removed from DSM-5 but later added back. Narcissus fell in love with his reflection.



FRAUD CIRCLE





PUBLIC WI-FI IS SAFE

Risk?

Steal logins and password



CALLER ID IS THE REAL NAME

Can be Spoofed



I SHOULD GIVE MY PIN OUT

Never!



FACEBOOK PROTECTS MY PI

I have a bridge in NY to sell you

Did they collude with Russia?

The only way to protect your PI is not to post



YOU CAN TELL WHEN SOMEONE IS LYING

People look up and to the right, or is it down or to the left?

Behavioral pause or delay

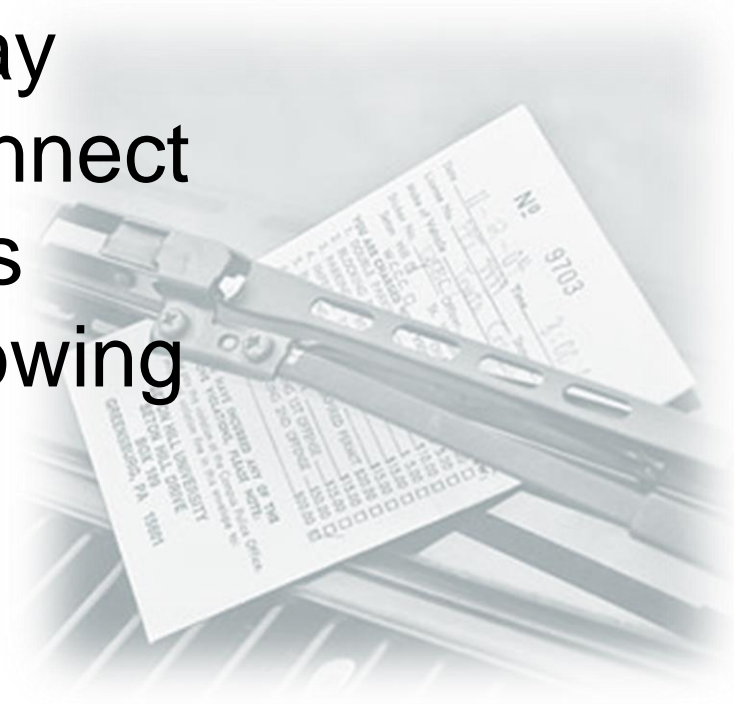
Verbal/Non-verbal disconnect

Hiding the mouth or eyes

Throat-clearing or swallowing

Hand-to-face activity

Grooming gestures





IDENTITY THEFT

Only happens to other people?

In 2017 there were 16.7 million victims

\$16.8 Billion

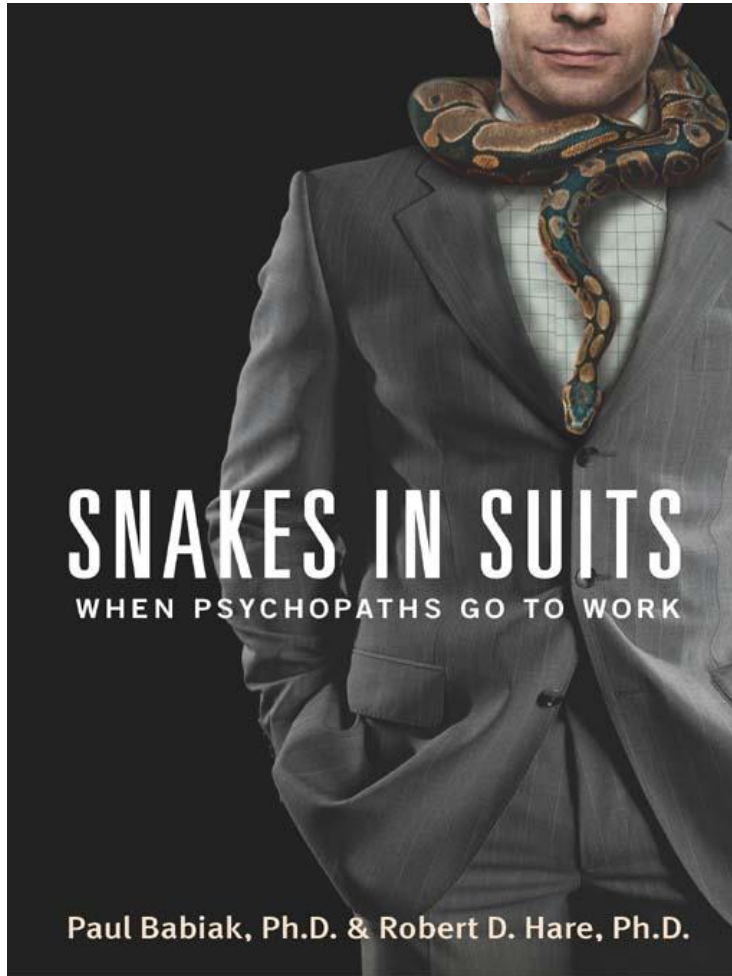
30% of U.S. Consumers

Chipped Credit Cards ushered in new scam,
just open an account in your name!

Don't forget to protect your Tax Refund & SS
Account

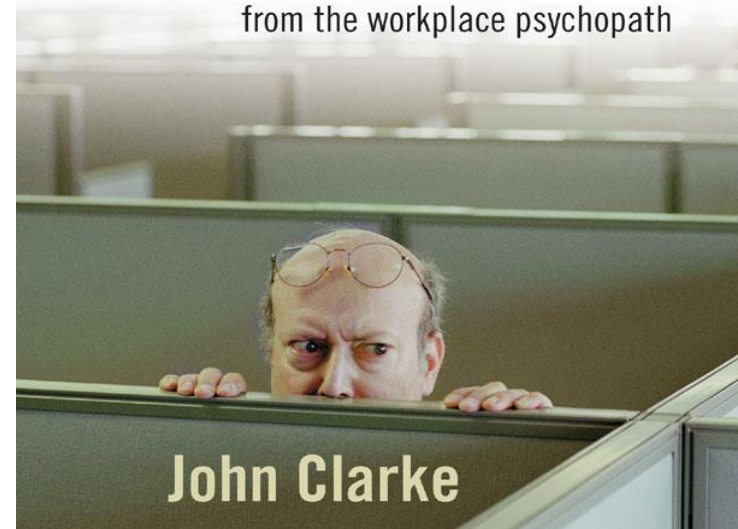


WHAT DO THEY THINK?



Working *with* Monsters

How to identify and protect yourself
from the workplace psychopath





PSYCHOPATH IN THE WORKPLACE

“There are 20 characteristics to define a **psychopath**. Really the fundamental factor is an absolute lack of remorse or guilt for their behavior, pathological lying, *manipulative*, callous, egotistical, very kind of self centered individual, glib and *superficial charm*”

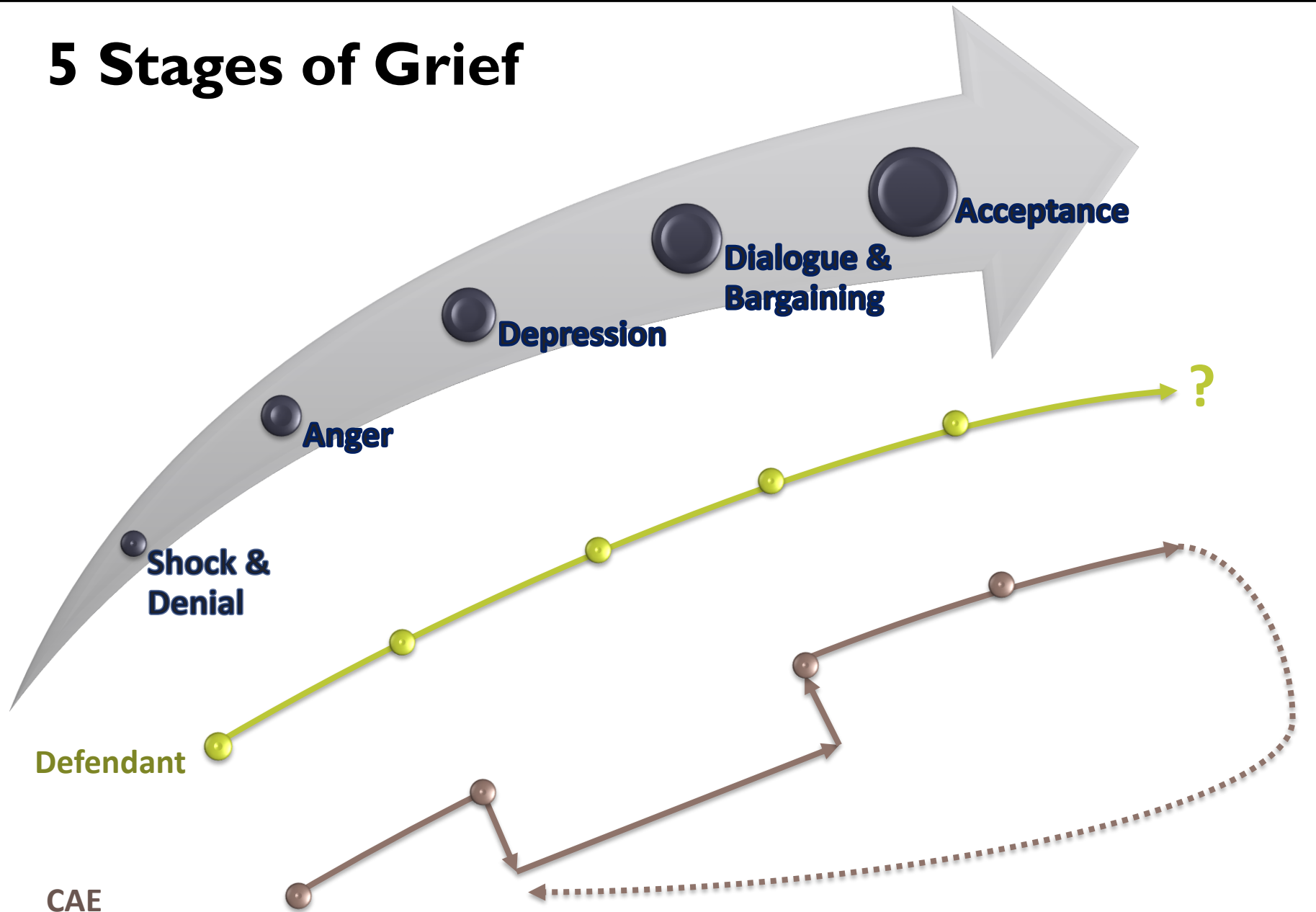
- *Psychologist Dr. John Clarke*



SUMMARY

- It is often difficult to *find* fraud. Most fraud is detected through inside information.
- When reviewing or auditing cash operations, pay attention to deposits, specifically the source and destination.
- Vendor rebate checks, refunds and returns present opportunity for fraud if adequate controls do not exist. Attention to the *frequency* of returns may signal potential fraud depending on the normal business operations.
- Attention to be given to checks received that *are not* recorded in AR. In other words, is the check matched with AR or just deposited? The latter presents additional opportunity for fraud.

5 Stages of Grief





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