

A Bad Influence

The Magic of Fighting Fraud



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The Ambitious Payroll Manager



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Internal Controls

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Replaced Staff/Moved Payroll to HR

Sole Authority Over Payroll Master File

Initiate Transactions

Post General Ledger

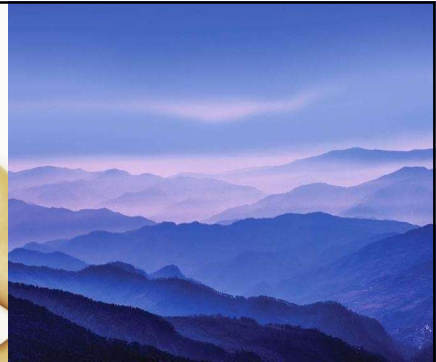
Reconciled Payroll Bank Account

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Red Flags

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- Spouse
- Home
- Cars

- Clothing & Jewelry
- Private Schools
- Horses

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Finding More

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Unreliable Payroll Records


Third-Party Documentation

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Sleight of Hand and Misdirection

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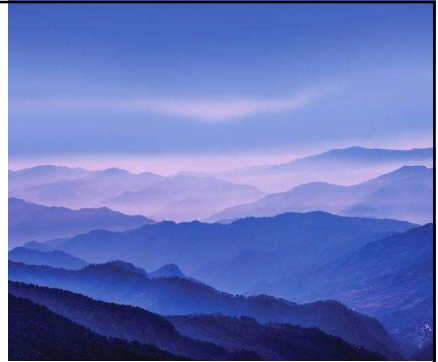
- Deleted Payroll Register Entries
- Altered Payroll Master File
- Fraudulent journal entries

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Damage

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\$2.25 MM

- Fictitious payroll disbursements
- Tax refunds

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Fraud

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The Fraud Triangle

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How Big is the Problem?

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How It Happens

- Asset Misappropriation: 86%; median loss \$100K
- Corruption - Bribery, kick-backs, illegal gratuities, conflicts of interest: 50%; median loss \$250K
- Financial Statement Fraud - 9%; median loss \$593K

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Asset Misappropriation - 86%

- Billing Schemes - 20%
- Cash on Hand/Cash Larceny - 18%
- Check/Payment Tampering - 10%
- Expense Reimbursements - 11%
- Payroll - 9%
- Skimming - 9%
- Register Disbursements - 3%



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Corruption - 50%



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Financial Statement Fraud



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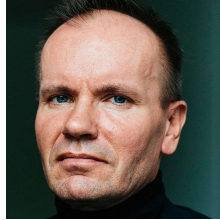
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Failures Persist



Elizabeth Holmes
Theranos
2018



Marcus Braun
Wirecard
2020



Sam Bankman-Fried
FTX
2022



SVB
2023

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How Do We Find It?



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- Tip - 42%
- Internal Audit - 16%
- Management Review - 12%
- Accident - 5%
- External Auditors - 4%
- Police - 2%

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Who Does It?



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- **Tenure and Gender**
- Long-tenured employees steal almost 3X more
 - More likely to collude
 - Take longer to catch
- Men account for nearly 3 in 4 fraud schemes
- Median losses 25% higher than that of women

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Who Does It?



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- **Age**
- 54% - Between 31 and 45
- 3% - Over 60 - Losses 800% higher
- **Education**
- Undergrads - 47% - \$150K
- Postgraduate - 18% - \$135K
- **Position**
- Owners/Executives - 23% - Losses 6X employees

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The "Trust Trap"



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Expect Fraud



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Assess Risk



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- Know your business
- Look at it like a fraudster would
- What have you got that someone else would want?
- How would you get your hands on it?

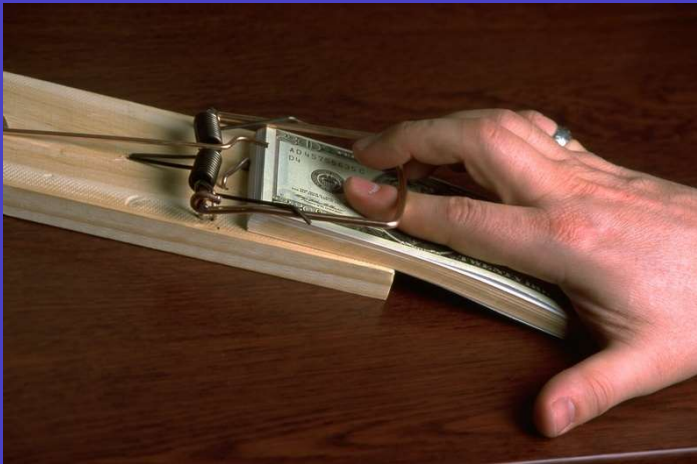
Know Who You're Hiring

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Internal Controls

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Segregation
of Duties

Meaningless
Approvals

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Stages of Grief

- Denial
- Anger
- Bargaining
- Depression
- Acceptance

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Planning Prevents Costly Mistakes

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Questions



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