

Catch it if you can – Fraud prevention suggestions from Mike Ueltzen

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Who Should We Worry About?

- Executive – Finance
- No criminal background
- College degree
- Frequently has an accomplice
- 40 years or older
- Male

Cost of Fraud

- 5% of Annual Revenues Lost
- Median Loss - \$140,000
- More than 20% - Over \$1 million

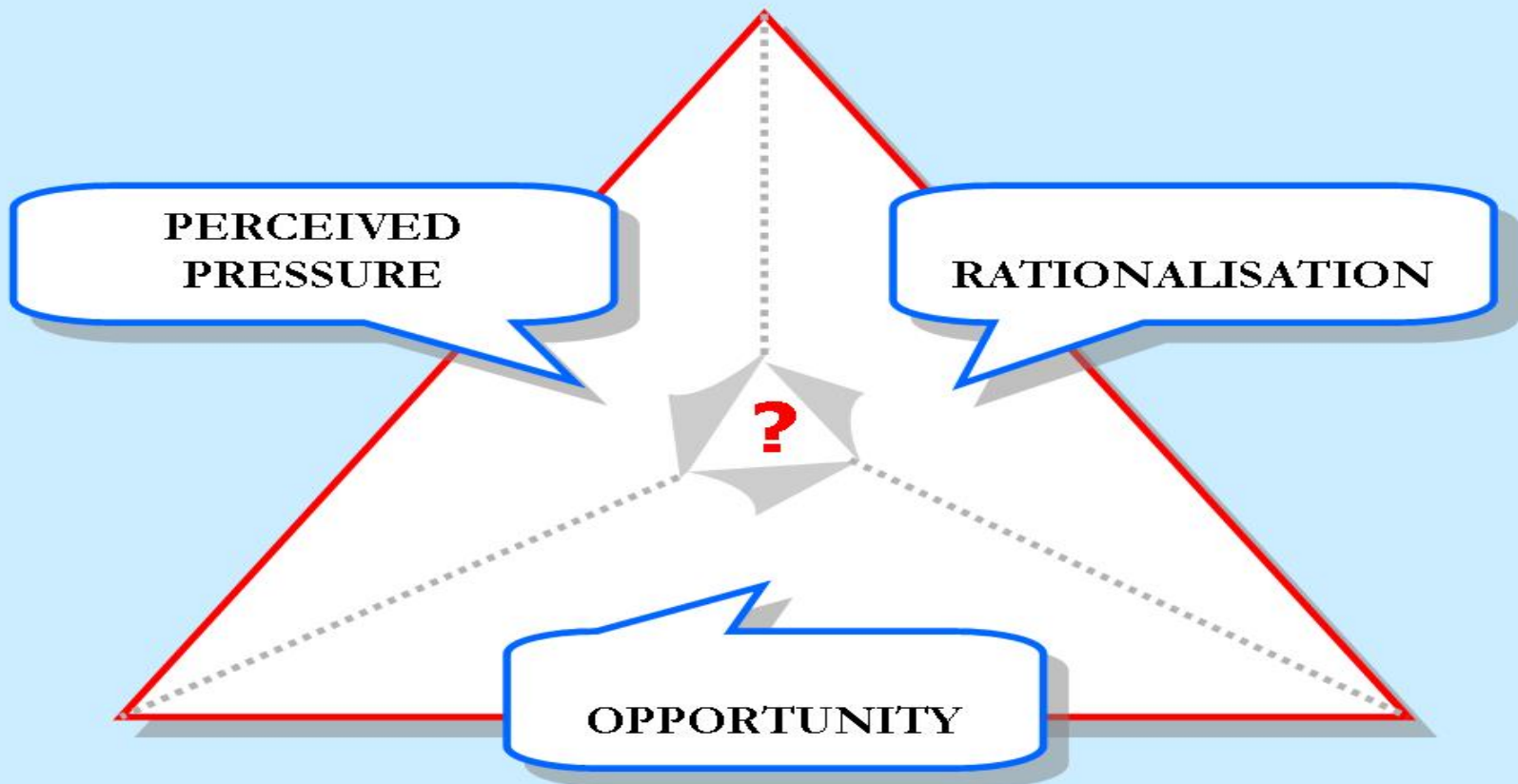
Typical Fraud Schemes

- Billing
- Corruption
- Expense Reimbursements
- Skimming
- Check Tampering
- Payroll
- Financial Statement

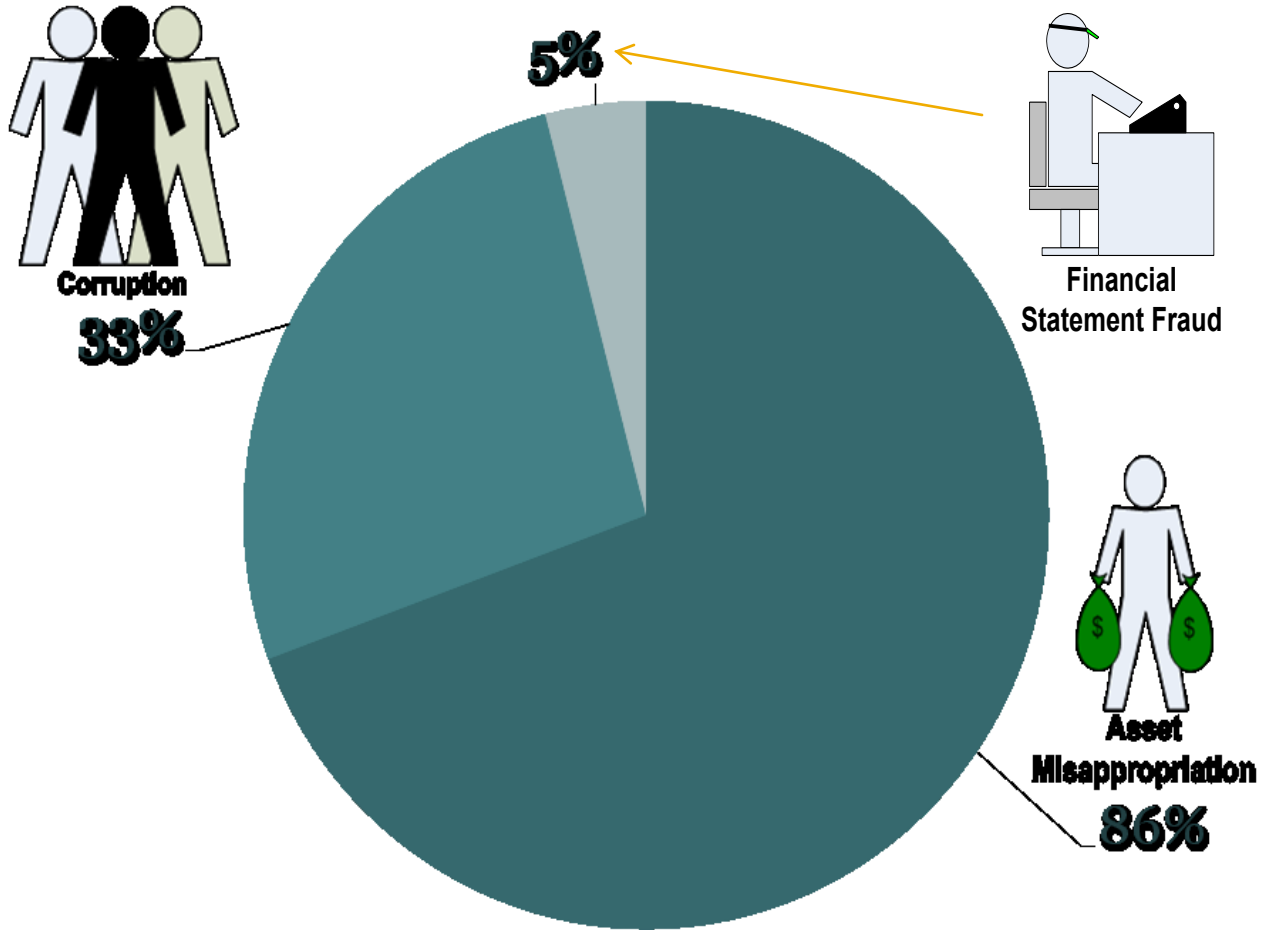
How Fraud is Committed

Fraud Triangle

OPEN THE FRAUD TRIANGLE



Fraud - Frequency



Opportunity

Perpetrators of fraud have (or perceive) an *opportunity* to:

- **Commit** the fraud; and
- **Conceal** the fraud.

Incentives/Pressures

Incentives/pressures include:

- **Financial pressure**
 - Living beyond means
 - Greed
 - Poor credit
- **Lifestyle pressure (“vices”)**
 - Gambling
 - Drugs/alcohol
 - Extramarital affairs
- **Work-related pressure**
 - Meet expectations
 - “Get even”

Attitude and Rationalization

Justifications for behavior include:

- **“I deserved it.”**
 - “I work my tail off, and no one appreciates it.”
 - “I’m so much smarter, and get paid so much less.”
- **“I was going to pay it back.”**
 - “It was only temporary.”
 - “Things got out of control.”
- **“Everyone else is doing it.”**
 - “The boss is padding his expense report, so why shouldn’t I?”
 - “Everyone is dipping into the till, so no one will care if I do too.”

Median Loss - Category

- Asset Misappropriation
86.7%
■ \$135,000
- Corruption
33.4%
■ \$250,000
- Financial Statement Fraud
7.6%
■ \$4,100,000

Duration

- Median – 18 Months
- Types
 - Payroll – 36 Months
 - Cash Disbursements – 12 Months

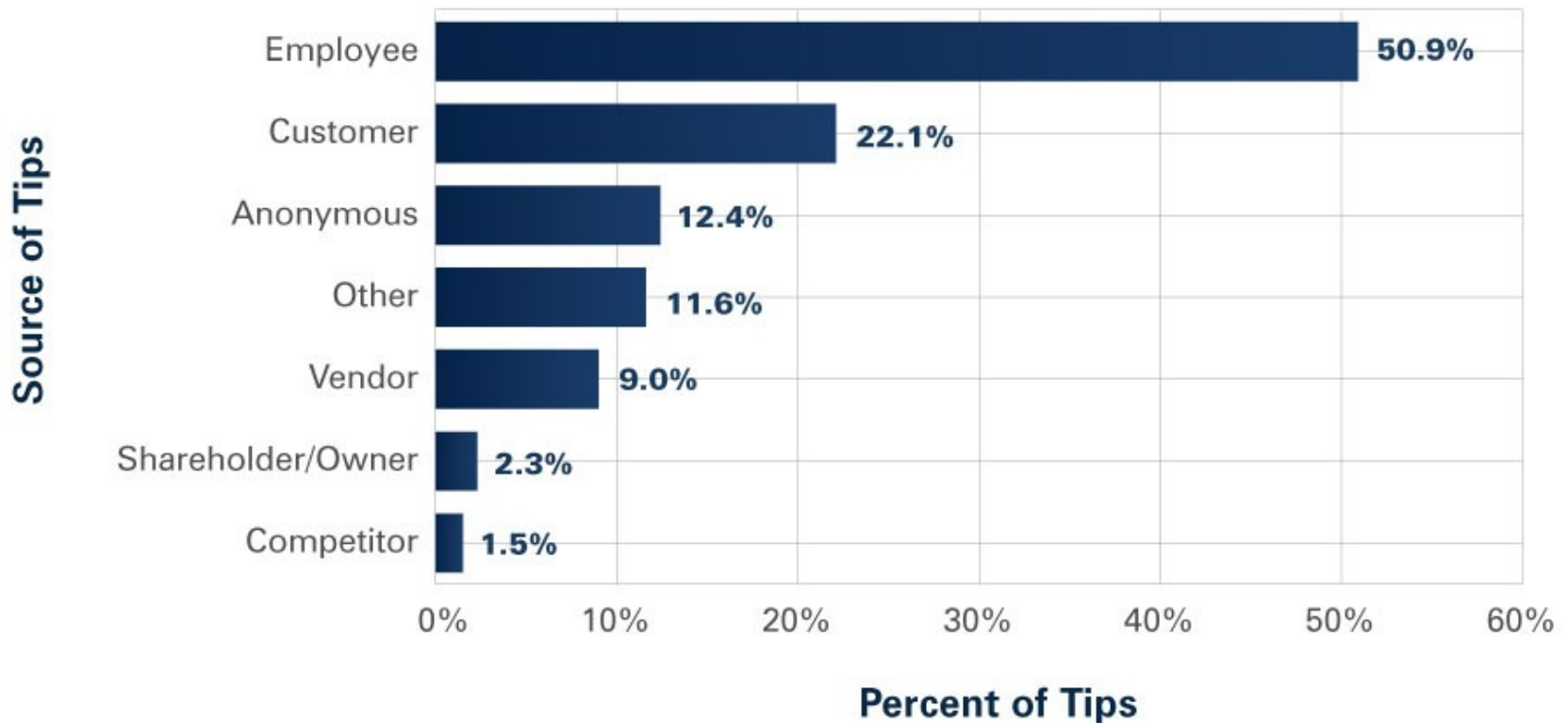
Methods of Detection

Fraud Statistics

How Fraud is Detected

Detection Method	Percent of Cases
Tip	40%
Management review	15%
Internal audit	14%
By accident	8%
Account reconciliation	6%
Document examination	5%
External audit	5%
Other controls/methods	5%
Confession	1%

Detection - Sources of Tips



Victim Organizations

Industry

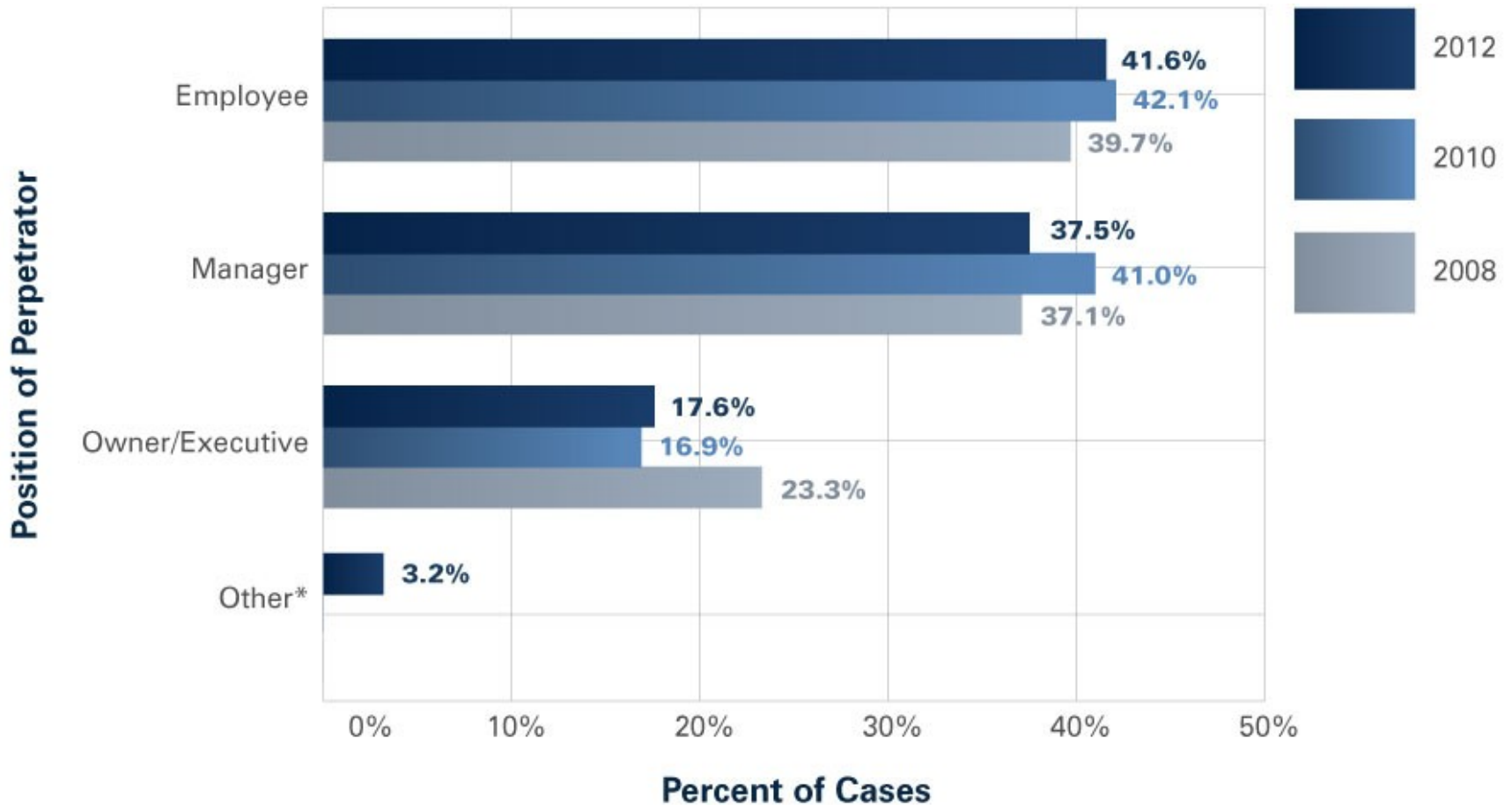
- Banking and Financial Services ■ 16.0%
- Government ■ 10.3%
- Manufacturing ■ 10.1%
- Health Care ■ 6.7%
- Education ■ 6.4%

Profile – Finance and Government

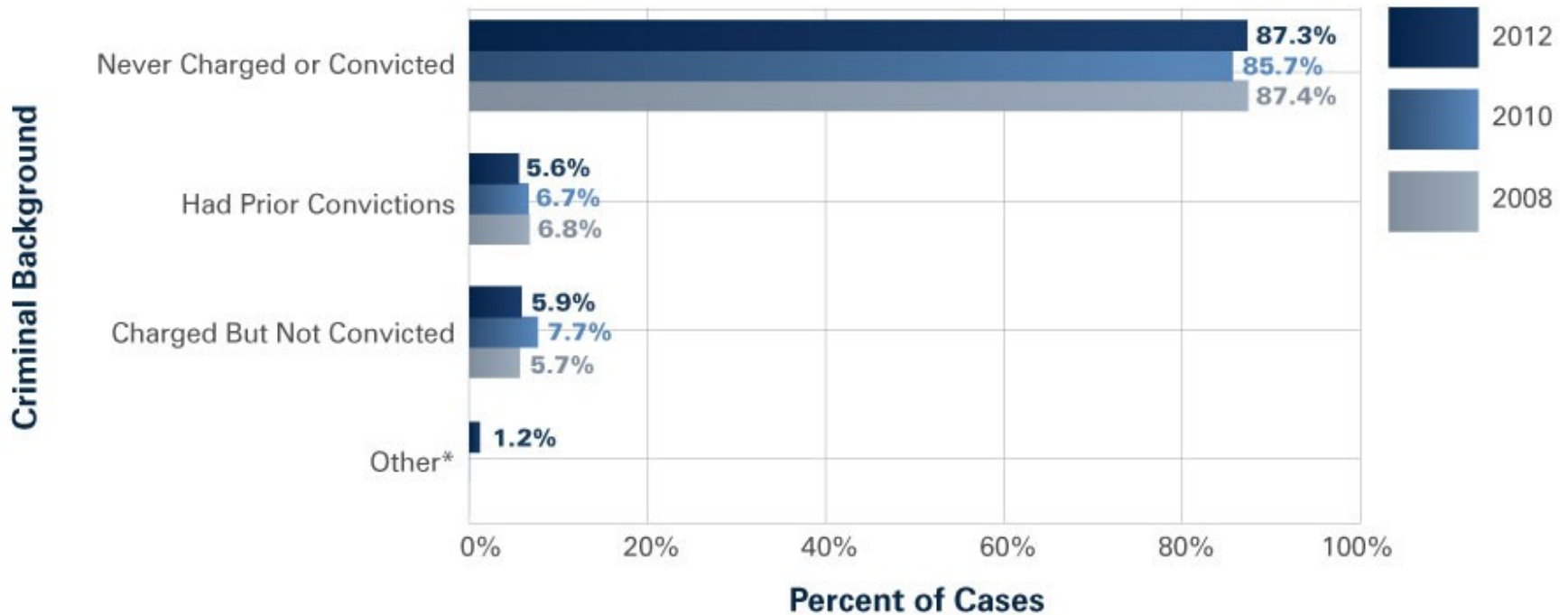
- Corruption
- Billing
- Skimming
- Expense Reimbursements
- Financial Statement Fraud
- Payroll

Perpetrators

Perpetrator's Position



Perpetrator's Background

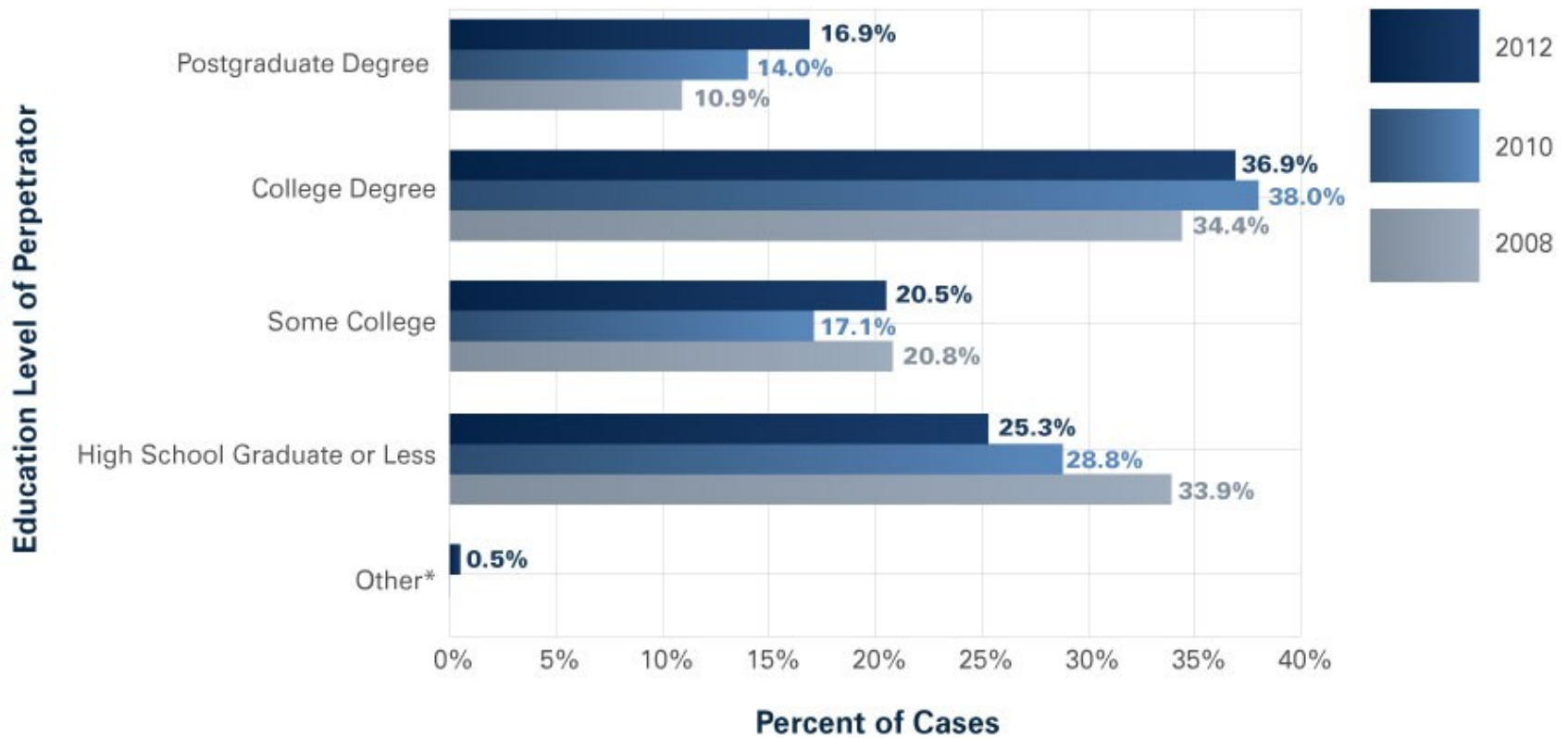


Perpetrator's Gender

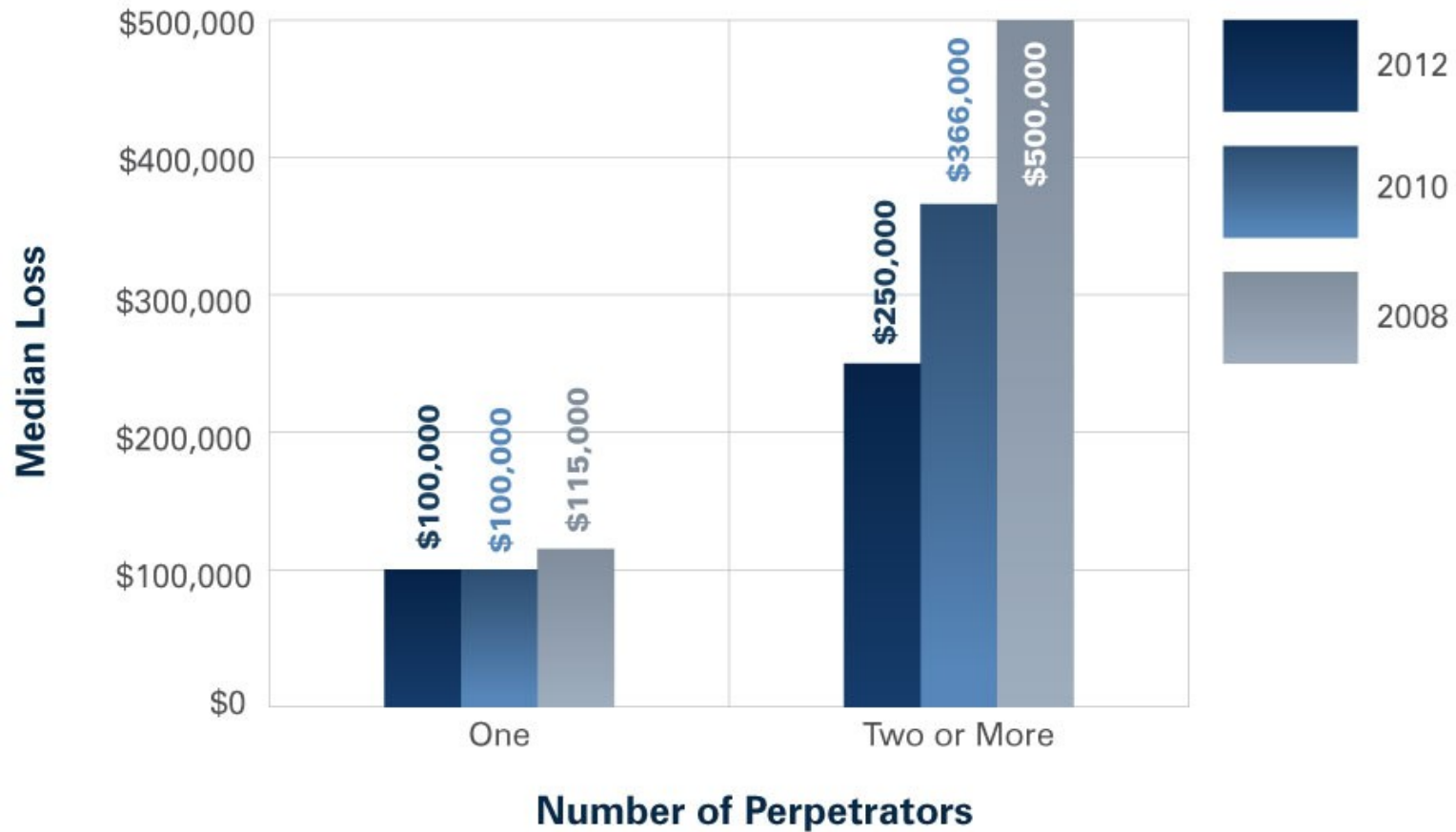
Position of Perpetrator — Median Loss Based on Gender



Perpetrator's Education

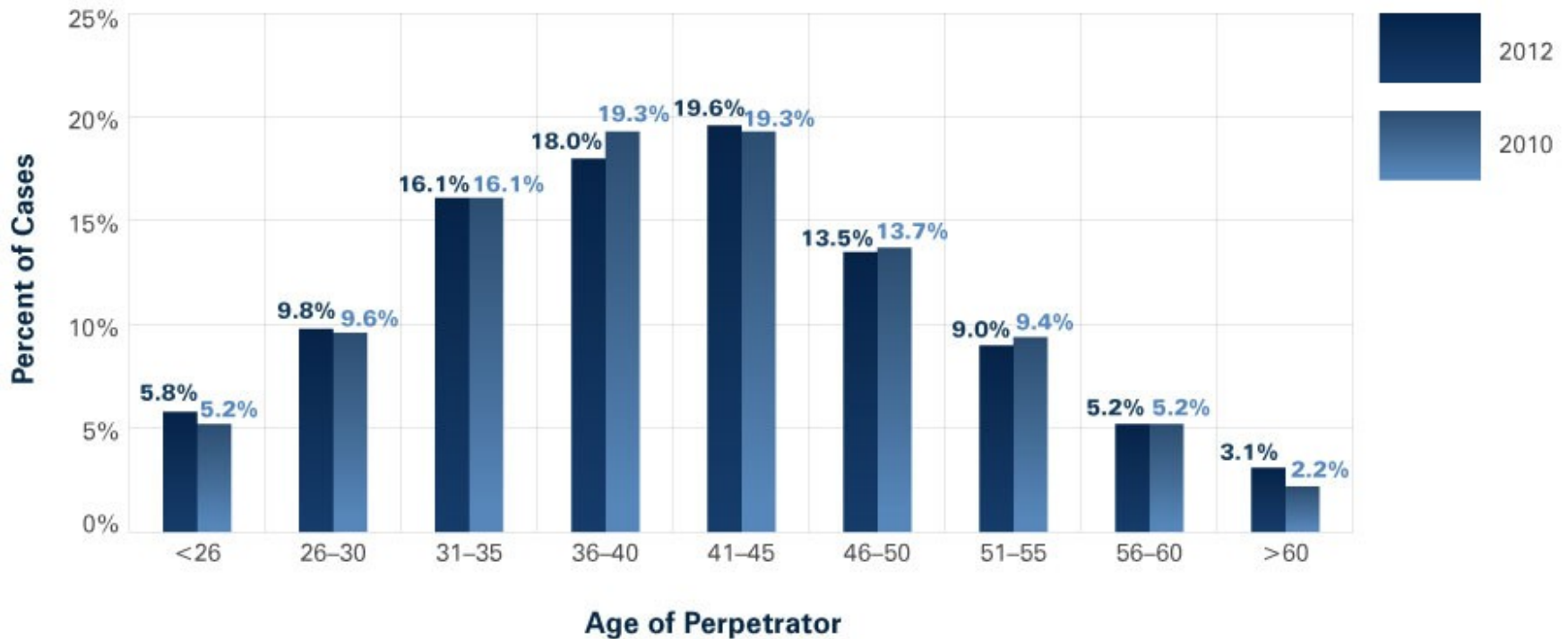


Perpetrators – Effect of Collusion



Perpetrator's Age

Age of Perpetrator — Frequency



Case Results

Criminal Prosecution

- Referred to Law Enforcement ■ 65.2%
- Not referred ■ 34.8%

Reasons not Referred to Law Enforcement

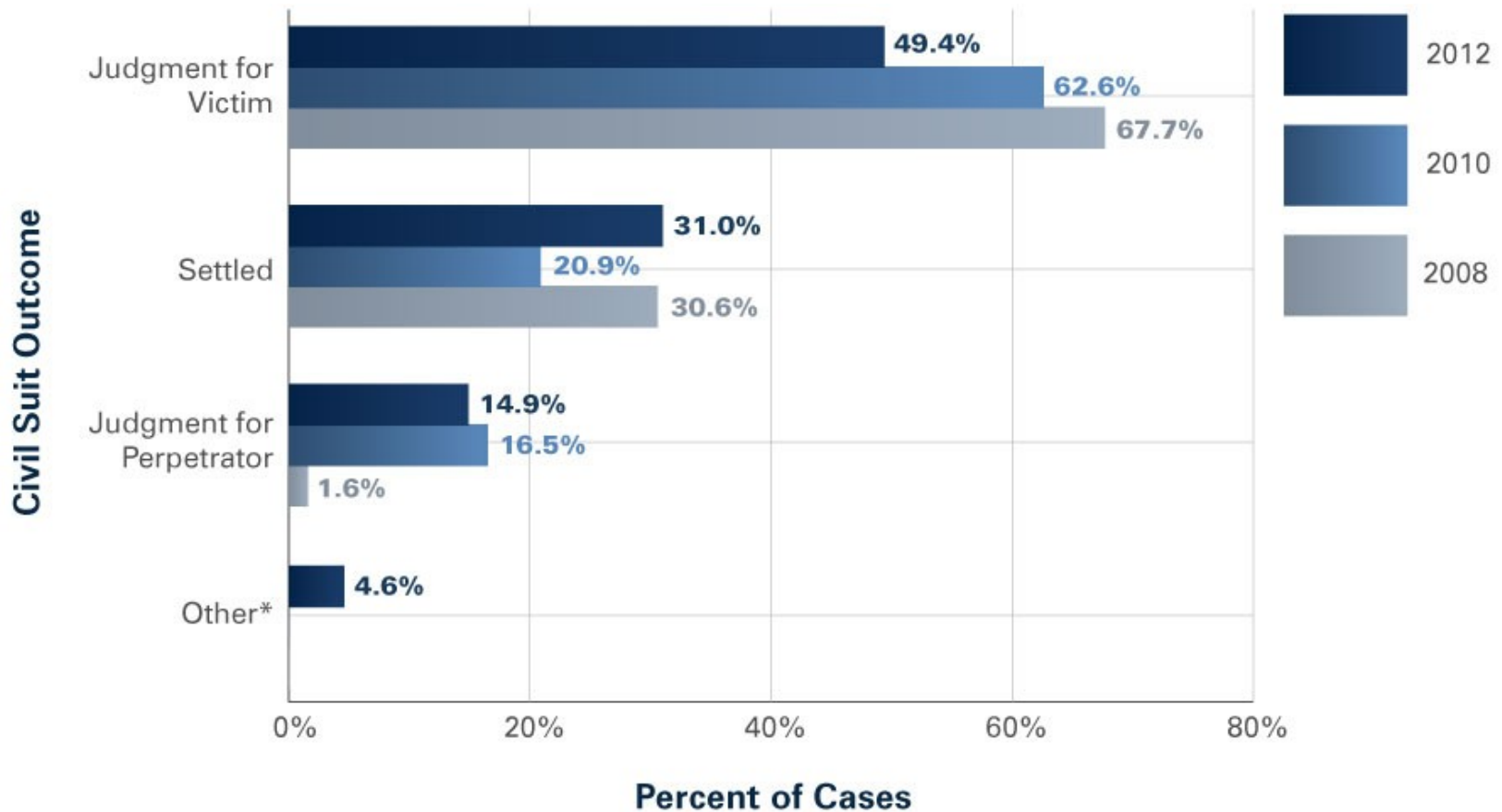
- Fear of bad publicity
- Internal discipline sufficient
- Private settlement
- Too costly

Civil Lawsuits - Pursued

- Civil Complaint Filed ■ 23.5%
- No ■ 76.5%

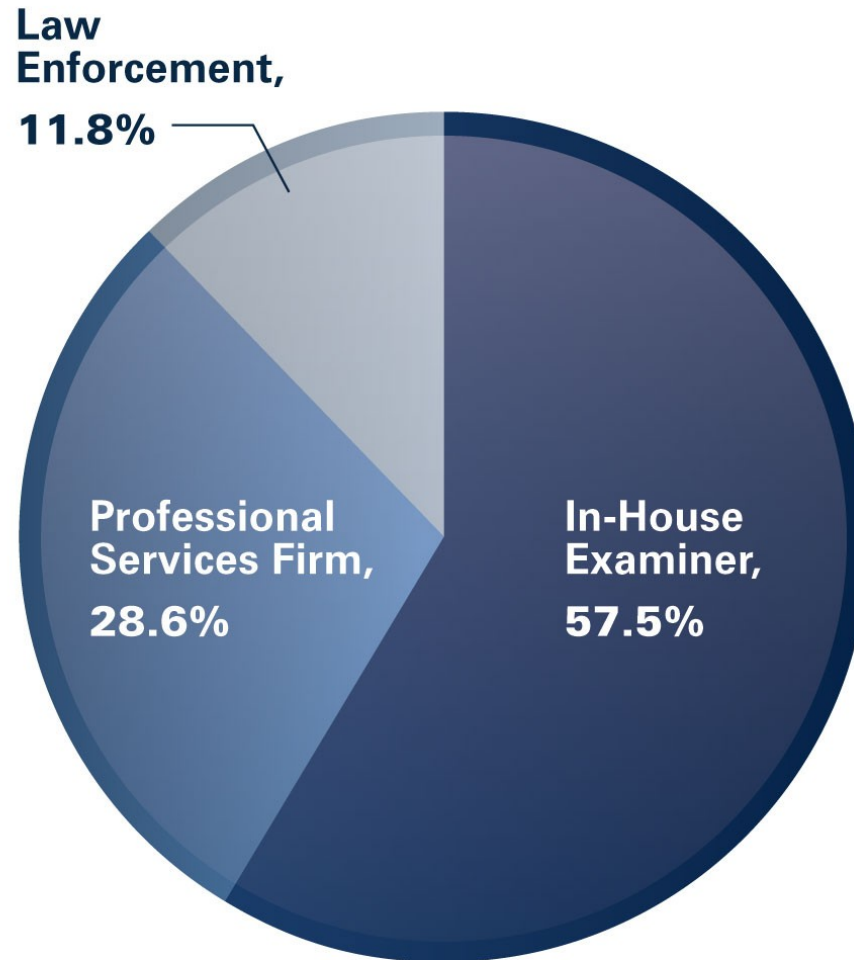
Case Results

Result of Civil Suits



Methodology

Investigators



Fraud Prevention

Profile – Finance and Government

- Corruption
- Billing
- Skimming
- Expense Reimbursements
- Financial Statement Fraud
- Payroll

Fraud Prevention Checklist

- Ongoing anti-fraud training
- Fraud reporting mechanism in place
- Increased perception of detection
 - Aggressive response to claims
 - Organization seeks out fraud assessment
 - Surprise audits
 - Use of auditing software

Fraud Prevention Checklist – (continued)

- Tone at the Top – Integrity
- Honest fraud risk assessments
- Anti-fraud controls in place
- Internal control department adequately staffed
- Thorough hiring policy
- Employee support programs
- Anonymous surveys – employee morale

Control Weakness

- Lack of Internal Control System
- Override of the Systems of Internal Control
- Poor Tone at the Top

Common Anti-Fraud Controls

- External Financial Statement Audits
- Audits of Internal Controls
- Formal Code of Conduct
- Management Certification of Financial Statements
- Internal Audit Department
- Whistleblower Hotlines

Simple Steps YOU Can Take

Check the checks:

Always look at canceled checks to make sure that the funds went to a legitimate account and that the signatures are authentic.

Simple Steps YOU Can Take

Tamp down tampering:

Open and look at the bank statement before the bookkeeper does. Consider having it sent to your home address.

Simple Steps YOU Can Take

Look at lifestyle:

Be attentive to how your key people are living. If your assistant shows up to work in a Jaguar, you might need to be a bit more attentive.

Simple Steps YOU Can Take

Separate the signers:

Always split authority to sign and prepare checks between at least two people. When one person can do both, it sets him or her up to be tempted.

Simple Steps YOU Can Take

Take those tips:

Midsized and larger businesses
Should set up a hot line to take
Anonymous tips. Publicize it to
employees, customers and vendors.

Simple Steps YOU Can Take

Check background:

Perform checks of criminal and employment history for each locale where the person has lived.

More information?

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