

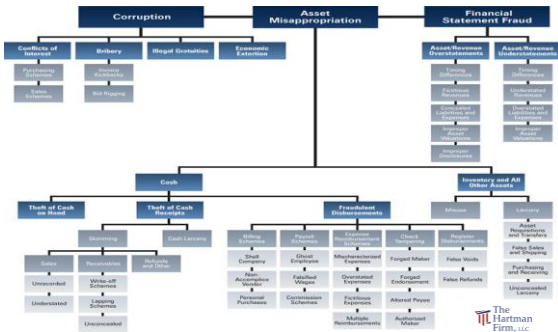
Why Do People Commit Fraud?



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Threat Picture: Fraud Tree



Threat Picture: DOJ Fraud Priorities

- Public Corruption
- Health Care Fraud
- Financial Institution Fraud
- Corporate Fraud
- Securities Fraud / Investment Frauds
- Money Laundering
- Antitrust
- Foreign Corrupt Practices Act
- Cyber Crime



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Threat Picture: Cyber Crime

- Nation State / Espionage
- Terrorism
- Criminal (Financial / Child Porn)
- Hacktivist (Social / Political)
- Individual (Just because I can)



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Aggregate Fraud Threat Picture

- Financial Statement Fraud
- Corruption / Conflict of Interest
- Misappropriation of Assets
- External Frauds
 - Fraud Against the Government
 - Investment Scams
- Cyber Crime



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Affects (innate emotions) Drive Fraud

Enjoyment Interest

Disgust Anger

Fear Distress Surprise

Shame Contempt



Reason v. Emotion

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Motivations: Business Need

- “Noble Cause”
- Economic downturn
- “Save the company” mentality



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Motivations: Ego

- Hypercompetitiveness
- “Dark Triad”
 - Narcissism
 - Machiavellianism
 - Psychopathy
- Self-aggrandizement
- Pride
- Shame



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Motivations: Excitement

- Gambling with other people's money, it's just a game.
- Financial Services Industry
- Risk Taker



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Motivations: Parity

- I deserve better.
- Devoted my entire career here.
- I'm getting cheated.



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Motivations: Status

- Save my status: Fear based
 - Lose job
 - Alcohol & Drug addiction
 - Bankruptcy
 - Divorce
- Increase my status: Greed based
 - Status symbols
 - Clothes, Neighborhood, Automobile



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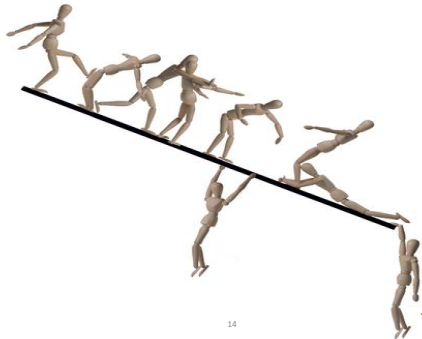
Predatory vs. Accidental



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Slippery Slope

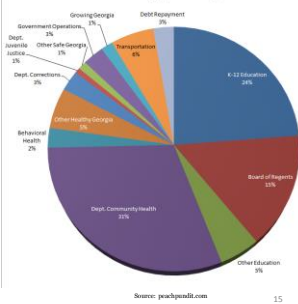


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Fraud Threat Picture: Georgia

FY 2016 Combined Georgia/Federal Expenditures



In Billions
 State Funds: \$22
 Federal Funds: \$23
 Total Spent: \$45

Education: \$19.5 / 44%
 Health Care: \$17.2 / 38%

Source: peachpanda.com

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Government Fraud Examples

- P-Card Fraud
- Procurement Fraud
- Billing / Accounts Payable
- Failure to safeguard assets
- Corruption / Conflicts of Interest
- Framework of Analysis:
 - **What can go wrong?**
 - **What does it look like?**
 - **How can we fix it?**

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Corruption / Conflicts of Interest

- Social Convention of Reciprocity
- Longevity in Office or Position
- Financial Need
- Contact with vendors



Barrrell Ellis



Shirley Lasseter

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Fraud Life Cycle

- Prevention
- Detection
- Investigation
- Remediation
- Mitigation



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Prevention: Hard Controls

- Hiring
- ICFR
- GAGAS
- Policies & Procedures
 - Ethics Policy
 - Conflicts of Interest Policy
 - Fraud Policy
- Separation of Duties



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Prevention: Soft Controls

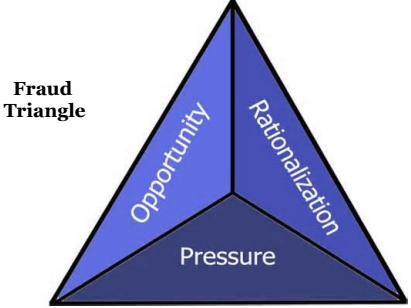
- Culture of Compliance
- Shared Values
- Training
- Ethics Awareness
- Fraud Awareness
- Want to Do the Right Thing For the Right Reason



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Prevention: Soft Controls



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Fraud Equation



$$\text{Desire} > \text{Fear} = \text{Fraud}$$

How does organization ↓ decrease desire?
How does organization ↑ increase fear?

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Detection



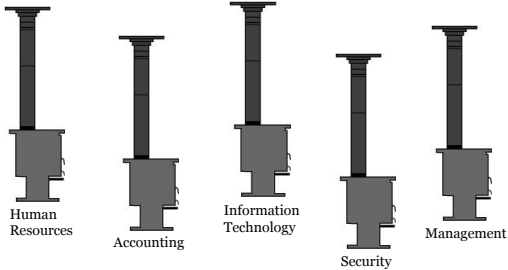
- Employee awareness
- Hot Line
- Whistle Blower
- Escalation Protocol
- Continuous Monitoring



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Detection: We Don't Know, What We Do Know



Classic Enterprise Stovepipe

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Investigation

- Policy
- Preparation
- Interviews
- Garrity v. New Jersey
385 U.S. 493 (1967)

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Remediation

- Fire employee?
- Civil Action
- Criminal Action
- Asset Forfeiture

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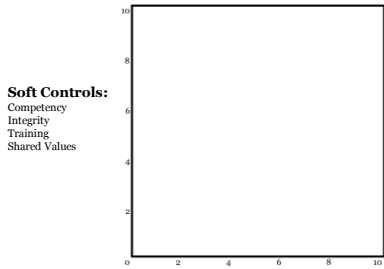
Mitigation

- Restore Public Trust
- Develop Hard Control
- Assess Soft Controls
- Culture & Training

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Control Environment Assessment



Hard Controls:
Policies
Procedures
Safeguarding Assets

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Questions



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