

# Why Do People Commit Fraud?





# Threat Picture: Fraud Tree

	Corr	uption	Asset Misappropriation				Financial Statement Fraud	
Conflicts of Interest	Bribery	Illegal Gratuities	Economic Extortion			6	isset/Revence verstotements	Asset/Rovenue Understatoments
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#### Threat Picture: DOJ Fraud Priorities

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





# Threat Picture: Cyber Crime

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





## **Aggregate Fraud Threat Picture**

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





## Affects (innate emotions) Drive Fraud

Enjoyment Interest [ Anger Disgust Fear Distress Surprise Contempt



# Reason v. Emotion

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## Motivations: Business Need

- o "Noble Cause"
- o Economic downturn
- o "Save the company" mentality



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# Motivations: Ego

- Hypercompetitiveness "Dark Triad:
- - Narcissism
  - Machiavellianism
  - Psychopathy
- o Self-aggrandizement
- o Pride
- o Shame



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# Motivations: Excitement

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



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# Motivations: Parity

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





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## **Motivations: Status**

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





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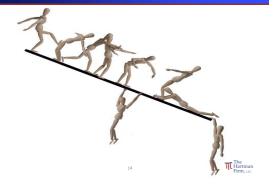
# Predatory vs. Accidental



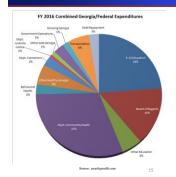


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# Slippery Slope



# Fraud Threat Picture: Georgia



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

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

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#### **Government Fraud Examples**

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



# Corruption / Conflicts of Interest

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







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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



#### 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



# Desire > Fear = Fraud

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

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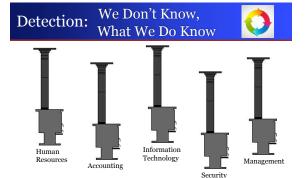
#### Detection



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



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Classic Enterprise Stovepipe  $_{\P^{\text{The }}_{\text{Effinition}}}$ 



# Investigation



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

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#### Remediation



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

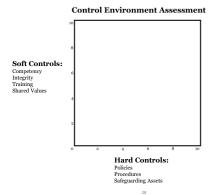
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# Mitigation



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

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# Questions



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