



**Managing the Risk of Fraud**

**SPEAKERS**

**Rusty Pounds, CFE**  
*Risk Advisory Services*

**Your guide forward** 


 **Cherry Bekaert**<sup>TM</sup>  
*CPAs & Advisors*

## Our View of Fraud Risk

Fraud Occurs Primarily Because...

- ▶ **Unseen fraud risk – blindsided**
- ▶ **Unmanaged risk**
- ▶ **Controls, failed**

Note that fraud most often occurs without the aid of collusion and could have been prevented by looking at a couple key areas.

 **Cherry Bekaert**<sup>TM</sup>  
*CPAs & Advisors*

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## Irregularities & Defalcations

...are just fancy words for lying and stealing

- ▶ A typical organization loses 5% of its revenues to fraud each year.
- ▶ **Corruption and billing schemes** pose the greatest risks to organizations.
- ▶ Most commonly victimized industries:
  1. Banking and financial services
  2. **Government and public administration**
  3. Manufacturing

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## Fraud in Governments

### Former Department of Veterans Affairs Official Sentenced for Taking \$1.2 Million in Kickbacks

On June 30, 2015, in Trenton, New Jersey, Jarod Machinga, of Hopewell, was sentenced to 46 months in prison and one year of supervised release. Machinga previously pleaded guilty to honest services wire fraud, wire fraud and engaging in a monetary transaction in criminally derived property. According to court documents, Machinga, a former Department of Veterans Affairs (VA) employee, worked as a supervisory engineer at the VA's campus in East Orange. As a supervisory engineer, Machinga had the authority and influence to direct certain VA construction contracts to particular companies. Machinga partnered with another individual to set up three companies that could be used to obtain VA work. He then directed more than \$6 million worth of VA construction projects to those companies. Machinga admitted he accepted \$1,277,205 in kickbacks in exchange for his official action and influence between 2007 and July 2012. Additionally, Machinga defrauded the VA by falsely representing that one of the contracting companies was owned by a service-disabled veteran when it was not.

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## Fraud in Governments

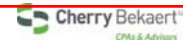
### Former Chairman of Board of Trustees for South Carolina State Sentenced for Racketeering Conspiracy

On May 20, 2015, in Columbia, South Carolina, Jonathan Pinson, of Greenville, South Carolina, was sentenced to 60 months in prison, five years of supervised release and ordered to pay \$337,843 in restitution. Pinson was convicted by a jury in June 2014 on charges of conspiracy to commit racketeering, theft concerning programs receiving federal funds, conspiracy to commit wire fraud, mail fraud, wire fraud, money laundering and false statements. According to court documents, Pinson was involved in four different schemes.

One scheme revolved around the 2011 homecoming concert at SCSU and Pinson's efforts to steer the concert promotion contract to his close friend and former SCSU roommate in exchange for a kickback. Other schemes included Pinson's theft of government funds earmarked for the installation of a diaper plant in Marion County. Proceeds from the grant, intended to create jobs in rural Marion County, were instead pocketed by Pinson and his associates. Pinson was also convicted of theft of government funds received from a 10 million dollar American Recovery and Reinvestment Act (ARRA) grant intended for the development known as the Village at Rivers Edge. In the final scheme,

Pinson again used his position as Chairman of the Board of SCSU to influence officials at SCSU to purchase land known as "Sportsman's Retreat". The seller of the property, Richard Zahn, Pinson's business partner, testified that he agreed to pay a kickback to Pinson in the form of a new Porsche Cayenne, an SUV valued at approximately \$90,000.

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## Fraud in Governments

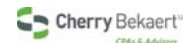
### Former Illinois School Board Member Sentenced for Bus Contracts Fraud Scheme

On April 21, 2015, in Chicago, Illinois, Alice Sherrod, a former North Chicago school board member, was sentenced to 30 months in prison and ordered to pay approximately \$7.2 million in restitution. In September 2013, Sherrod pleaded guilty to wire fraud and filing a false federal income tax return. According to court documents, between 2001 and 2010 Sherrod, who was the North Chicago school district's Director of Transportation, participated in a fraud scheme with four co-defendants, including Gloria Harper, the former President of the North Chicago school board.

Sherrod and Harper used their positions to enrich themselves secretly by soliciting and accepting gifts and cash from their three co-defendants in exchange for favorable official action regarding student transportation contracts. Initially, Harper and Sherrod received kickbacks of approximately \$4,000 to \$5,000 a month but, by 2003, they were collecting approximately \$20,000 a month. The three co-defendants funneled kickbacks totaling at least \$800,000 to Harper and Sherrod and made more than \$9.6 million in profits.

All five defendants pleaded guilty last year and have been sentenced. Gloria Harper, of Berwyn and formerly of Gurnee, was sentenced to 120 months in prison for her part in the scheme.

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## Fraud in Governments

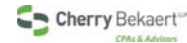
### Former Consultant to New York Democratic Senate Campaign Committee Sentenced For Tax and Fraud Conspiracy

On Dec. 19, 2014, in Manhattan, New York, Melvin Lowe, a former consultant to the New York State Democratic Senate Campaign Committee ("DSCC"), was sentenced to 36 months in prison and three years' supervised release. Lowe was convicted in September 2014 for conspiring with New York State Senator John Sampson to defraud the DSCC of \$100,000 and for personal income tax offenses.

According to court documents, Lowe arranged for a New Jersey-based political consultant to submit a false invoice to the DSCC for \$100,000 in printing services. Sampson approved payment of the invoice and the DSCC sent \$100,000 to the New Jersey-based consultant. Lowe instructed the consultant to send \$75,000 of the proceeds to Lowe's consulting company.

Lowe received more than \$2.1 million in consulting income from 2007 to 2012. He reported less than \$25,000 in income on each of his federal income tax returns for 2007 through 2009, which he did not file until late 2010. Lowe never filed tax returns for 2010 through 2012. He never made any payments toward his taxes for the years 2000 through 2012. Lowe also caused a bank to make a false statement to his mortgage lender regarding the balance in his checking account. When the mortgage lender sent Lowe's bank a Verification of Deposit form to verify Lowe's claim that he had \$65,000 in his checking account, Lowe caused the assistant manager to claim that Lowe's account had a balance of more than \$80,000. At that time, the balance in Lowe's checking account was \$2,156.

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## Fraud in Governments

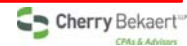
### Former Executive Director of Affordable Housing Organization Sentenced for Conspiracy to Steal Federal Funds

On Oct. 17, 2014, in New Orleans, Louisiana, Stacey Jackson was sentenced to 60 months in prison, three years of supervised release and ordered to pay over \$424,000 in restitution to Housing and Urban Development (HUD) and to individual victims, as well as a \$50,000 fine. According to court documents, Jackson, the former Executive Director of New Orleans Affordable Homeownership (NOAH), a city agency and non-profit corporation, conspired with others to misuse and personally benefit from federal funds that NOAH had received.

HUD, both before and after Hurricane Katrina, provided grant money to the City of New Orleans to address blight within the city and to remediate homes damaged by the storm. Jackson, as the Executive Director of NOAH, was responsible for the day-to-day management of the agency and determined how much each contractor would be paid.

Jackson arranged to overpay certain contractors, instructing them to kickback portions of the overpayments to her. Jackson instructed others to pay her kickbacks out of the NOAH money she paid them for work that could not be substantiated by invoices or work actually performed. Additionally, Jackson paid, in part, for a renovation project on property she owned, by using public funds distributed to NOAH. Finally, Jackson provided false and fraudulent documents to a contractor in an effort to mislead the federal grand jury investigation into the fraud.

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## Fraud in Governments

### **Former County Chief Deputy Auditor Sentenced for Embezzling Government Funds, Tax Fraud and Wire Fraud**

On March 2, 2016, in South Bend, Indiana, Mary Ray, of LaPorte, was sentenced to 84 months in prison and was ordered to forfeit \$137,249 and pay \$801,315 in restitution. On Sept. 17, 2015, Ray was convicted of two counts of theft of government monies, two counts of making false statements on a tax return and seven counts of wire fraud.

According to court documents, from September 2011 through December 2012, while she served as chief deputy auditor for LaPorte County, Ray embezzled more than \$150,000 from county coffers and underreported her income on her U.S. Individual Tax Returns by failing to report the embezzled funds.

Ray also defrauded her father-in-law, an 86-year-old disabled veteran, out of more than \$600,000 in funds that he entrusted her to oversee. Ray used the illegally-obtained funds to gamble at casinos.

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## Fraud in Governments

### **Former Tennessee Airport Official Sentenced for Fraud and Bribery Scheme**

On April 11, 2016 in Nashville, Tennessee, John T. Howard was sentenced to 24 months in prison.

Howard was also ordered to pay restitution of \$1,405,876 and to forfeit the proceeds of his crime. Howard previously pleaded guilty to conspiring to commit wire fraud, soliciting and receiving a bribe and money laundering.

According to court documents, Howard, who had been an Assistant Vice President of the Metropolitan Nashville Airport Authority ("MNA"), conspired with certain MNA contractors to submit fraudulent invoices to MNA for construction and repair work that they had not performed, overseen, or verified.

Howard also asked a contractor to purchase more than \$49,000 in airline tickets to Las Vegas for players, coaches, and others affiliated with a youth basketball organization run by Howard, in return for awarding an MNA cleaning job to this contractor.

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## City of Dixon, Illinois

- ▶ \$53 million embezzlement
- ▶ Largest municipal embezzlement in U.S. history
- ▶ 19 ½ year jail sentence
- ▶ Spanned 22 years (1990 – 2011)
- ▶ Began \$181K/yr – increased \$5.8M/yr
- ▶ *City of Dixon sued both the auditors and the Bank handling the funds. Recovered \$40 million*
- ▶ City of Dixon obtained the following settlements:
  - CliftonLarsonAllen, LLP \$35.15
  - Janis Card Associates (small CPA firm) \$1 million
  - Fifth Third Bank \$3.85 million



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## And A Counting Test

- ▶ Add these Numbers

ONE THOUSAND plus FORTY.  
Now add another THOUSAND.  
Add TEN. A THOUSAND more.  
Add Forty. Now add TEN more.  
What is your Total?

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## Accounting Test Answer

- A. 3090
- B. 4000**
- C. 3100
- D. 3200

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## Wake County School Board

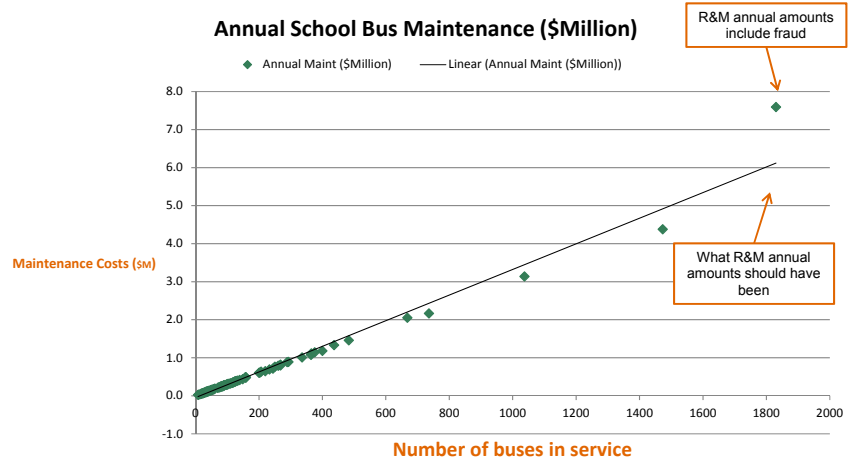
- ▶ **Raleigh NC** — Cars, vacation cottages, golf carts and jet skis were just some of the kickbacks that a group from Wake County public schools and an auto parts company were enjoying in 2004.
- ▶ The school system **estimates at least \$4 million to \$5 million** was diverted from the Wake school system in an automotive parts scheme involving then-employees of the school system's transportation department and a Wilson-based automotive parts company, Barnes Motors & Parts. Wake schools' budget records show the transportation department paid Barnes Motors & Parts \$206,611 during the 2000-01 school year. That figure ballooned to more than \$1 million in 2001-02, \$4.5 million in 2002-03 and about \$4.3 million in 2003-04 – totaling more than \$9 million from 2001 to 2004.
- ▶ Investigators said the suspects submitted fake orders for auto parts and bought gift cards, trucks, boats, trailers and other high-priced items for themselves.
- ▶ Seven people, **including five former school system employees** and two former Barnes' employees, were convicted and sentenced for their roles in the fraud scheme. Sentences ranged from 60 days to 15 years in prison.

Source: WRAL 9/8/2011

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## Data Analytics Linear Regression Wake County Schools



## NC Fraud in the News

### Former Charlotte Mayor Pleads Guilty To Public Corruption

Patrick Cannon Admitted To Carrying Out A Bribery Scheme And Accepting At Least \$50,000 In Exchange For Using His Official Position To Benefit His Payors

CHARLOTTE, N.C. – Former Charlotte Mayor Patrick D. Cannon pleaded guilty today to one count of honest services wire fraud, announced Anne M. Tompkins, U.S. Attorney for the Western District of North Carolina and John A. Strong, Special Agent in Charge of the Federal Bureau of Investigation (FBI), Charlotte Division.

A federal criminal bill of information charging the former mayor and a filed plea agreement were unsealed on Monday, June 2, 2014. Cannon, 47, appeared in court today and formally pleaded guilty to the charge before U.S. Magistrate Judge David S. Cayer.



<https://www.justice.gov/usao-wdnc/pr/former-charlotte-mayor-pleads-guilty-public-corruption>



## Former Assistant City Manager Arrested

### Nov 18, 2014 - Former leader of Raleigh business incubator arrested on embezzlement charge

RALEIGH — A former assistant city manager was arrested Tuesday morning on charges of embezzlement and obtaining property by false pretense from a business incubator formerly funded by the city.

Lawrence Wray, 70, was board chairman of the nonprofit Raleigh Business and Technology Center, which is now under investigation by Raleigh police.

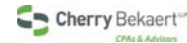
A grand jury indictment, dated Monday, alleges that Wray essentially took tens of thousands of dollars from the incubator, which offered office space and mentoring to small businesses. The indictment claims that Wray negotiated a \$25,000 loan to the nonprofit on Nov. 4, 2009, but wired the loan proceeds directly into a personal account.

The incubator then repaid the loan to the lender, a person named Alicia Lockard, according to the indictment. The incubator was obligated to repay the \$25,000 loan, plus interest, for a total of \$48,000 to be paid over a period of just six months, according to the indictment.



Source: Raleigh News & Observer 11/18/2014

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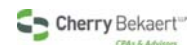
## Recent Fraud in the News

- ▶ **Aug 28, 2017 - RALEIGH** - A total of \$2.3 million in cash went missing from the Wake County Register of Deeds office over a nine-year period, records show.
  - Wake County reported that total in a claim filed with its insurance company Monday.
  - The claim shows that large sums of cash went missing from 2008 onward. The yearly totals ranged from \$200,000 in 2009 to \$326,000 in 2012.
  - The State Bureau of Investigation is investigating the missing cash.
- ▶ **Dec 14 2017 - RALEIGH** The last of four people indicted on charges of embezzling money from the Wake County Register of Deeds office surrendered to authorities Thursday morning.
  - Veronica Scisco Gearon, 52, who lives in Raleigh, is charged with six counts of embezzling funds entrusted to a government agency. Gearon was freed from custody Thursday morning after posting \$50,000 bail.

<http://www.newsobserver.com/news/local/crime/article189732344.html#storylink=cpy>

<http://www.newsobserver.com/news/local/counties/wake-county/article169880022.html#storylink=cpy>

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## NC Fraud in the News



Left to right, former Wake County Register of Deeds Laura Riddick and former Register of Deeds employees Troy Ellis, Veronica Gearon and Murray Parker. The four turned themselves Wednesday, Dec. 13, 2017 and Thursday, Dec. 14, 2017, to face embezzlement charges. - CCB

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## Let's Work A Case

- ▶ Farmville Health

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## Case Study – Farmville Health

- ▶ Our Client Farmville Health, terminated the former CFO (a/k/a Billy) for misappropriating assets using various Organizational credit cards for personal purchases in calendar years 2007 through 2013.
- ▶ Billy began working for Farmville Health in April 1998 where he held the following positions; CFO, Controller, Accountant.
- ▶ Due to the former CFO's position of influence over the system of internal control we applied data analytics and additional procedures limited to the procurement-to-payment (P2P) business cycle and Payroll.
- ▶ We gained an understanding of foundation anti-fraud controls and noted findings in security, systems access, periodic access review controls and segregation of duties. However, there was no management letter comment or control deficiency formally reported by the Audit Firm.
- ▶ Based on initial inquiries, you learn the Accounting Manager (Ms. TK) was responsible for reviewing the CFOs credit card charges and expense reimbursements.

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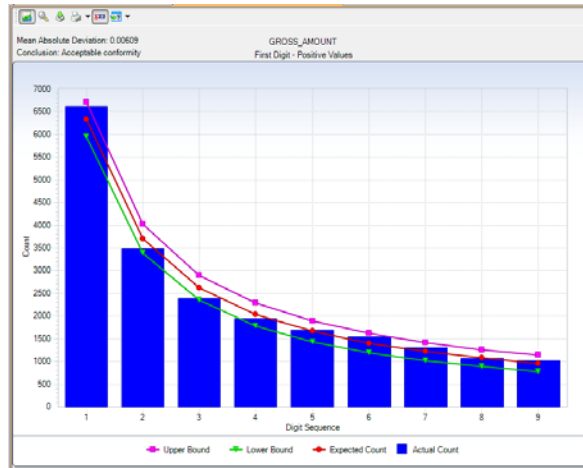
## Farmville Background and Scope

- ▶ We performed a series of vendor diagnostics and data analytical procedures for potential indicators of irregular activity associate with vendor data from the Farmville Health accounting system supplied by management:
- ▶ We noted several unusual vendors and some potential conflicts of interest associated with the Accounting Manager (Ms. TK).
- ▶ We identified significant differences in the amounts recorded as vendor payments in the Accounting system and the amounts reported on IRS FORM 1099-MISC for certain vendors (see table later).

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## Normal Benford's Law Distribution

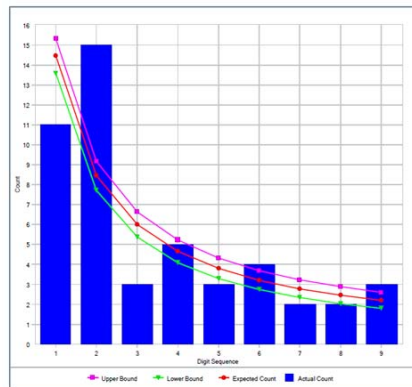


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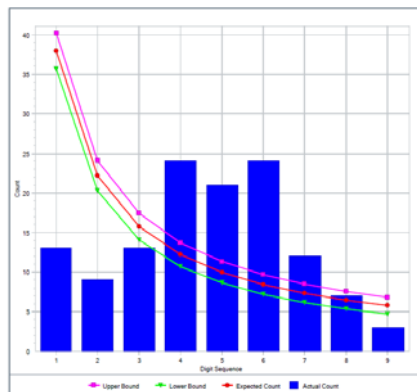


## Red Flag Indicators

### Hammer'n'Nails General Contractor



### Buzzin Electric Specialty Contractor



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# Invoice Inspection Specialty Contractor

Owner: Buzz Sawyer. Over 20 Years Experience

**STATEMENT**

**Buzzin Electric**

390 Pink Hill Road • Farmville, NC  
Phone: (919) 298-5754

Name: **Farmville Health** Date: **8-1-07**  
Address: **4050-504580**  
Phone:

ITEM	DESCRIPTION	BALANCE
2	4" Delta Bulbless Layer Light	156.00
8	4" Electronic Lamp	38.40
4	3way Switches	6.00
4	Single pole Switches	6.00
20	Double Receptals	12.00
20	Double Receptal Covers	12.00
1	3way Switch Cover	3.60
6	1 way Switch Covers	2.40
50	#12 AWG Cable	80.00
12	AW Connectors	6.00
	<b>Tax</b>	<b>17.162</b>
	<b>Subtotal</b>	<b>290.180</b>
	<b>MATERIALS</b>	<b>310.182</b>
	<b>LABOR</b>	<b>960.85</b>
	<b>TOTAL</b>	<b>1270.12</b>

Thank You!

Owner: Buzz Sawyer. Over 20 Years Experience

**STATEMENT**

**Buzzin Electric**

390 Pink Hill Road • Farmville, NC  
Phone: (919) 298-5754

Name: **Farmville Health** Date: **10-10-07**  
Address: **4050-504580**  
Phone:

ITEM	DESCRIPTION	BALANCE
150'	Cat 5 Computer wire	60.00
1	12" work Box	6.00
30'	1/2" Flex	36.00
4	1/4" Flex 90	20.00
4	1/4" Flex Connectors	16.00
60'	#16 THHN copper	59.00
20'	#10 THHN copper	10.00
2	FFE Balun Breakers	410.00
8	AW Balun Breakers	68.00
2	QO 520 Breakers	40.00
1	QO 120 Breakers	10.00
5	QO 220 Breakers	80.00
42	1600x40x1200"	1566.270
	<b>Tax</b>	<b>92.38</b>
	<b>Subtotal</b>	<b>2272.00</b>
	<b>MATERIALS</b>	<b>1452.27</b>
	<b>LABOR</b>	<b>1280.00</b>
	<b>TOTAL</b>	<b>3178.172</b>

Thank You!

Owner: Buzz Sawyer. Over 20 Years Experience

**STATEMENT**

**Buzzin Electric**

390 Pink Hill Road • Farmville, NC  
Phone: (919) 298-5754

Name: **Farmville Health** Date: **11-1-07**  
Address: **4050-504580**  
Phone:

ITEM	DESCRIPTION	BALANCE
35'	2" PVC Pipe	38.100
3	2" PVC Couplings	9.00
1	2" PVC Tee	8.00
2	1/2" Unistrut	8.00
2	Unistrut Straps	8.00
1	2" x 2" x 1/2" Galv. Steel	12.00
1	EXTRA Junction	36.00
2	2" PVC Straps	1.00
	<b>Tax</b>	<b>2.176</b>
	<b>Subtotal</b>	<b>122.176</b>
	<b>MATERIALS</b>	<b>122.176</b>
	<b>LABOR</b>	<b>1280.00</b>
	<b>TOTAL</b>	<b>1402.176</b>

Thank You!



# Invoice Inspection General Contractor

Farmville Health

Hammer 'n' Nails  
Rusty Nail Drive  
Farmville, NC

Quantity	Item	Description	Amount
		materials for ballistics penetration	6,500

Farmville Health

Hammer 'n' Nails  
Rusty Nail Drive  
Farmville, NC

Quantity	Item	Description	Amount
		materials for ballistics penetration	4,500

4050-504580

SUBTOTAL: \_\_\_\_\_  
TOTAL: **6,500**

SUBTOTAL: \_\_\_\_\_  
TOTAL: **4,500**



## Findings - Under Reported 1099 MISC

VENDOR_NAME	Vendor Service	Vendor TIN	Conflict of Interest	Payments 01/2008 - 12/2013	FORM 1099-MISC Amts recorded System	Difference considered Irregular	Difference considered proper e.g., (sales tax)
Hammer'n'Nails	General Construction	SSN	1	\$ 1,082,634	\$ 407,759	(\$674,875)	
Buzzin Electric	Electrical Contractor	SSN	2	656,439	620,171		\$ (16,268)
Bestest Roofing	Roofing & Construction	56-2222222	3	170,890	137,140	(33,750)	
Best Bug Control	Pest Control	56-3333333	Yes	108,218	104,238		(3,980)
Pappa ZK Glass Service	Construction	20-5555555	Yes	106,288	100,397		(5,891)
Carpet Bagger	Carpet Installation	SSN	4	62,738	37,238	(25,500)	
C. Tiles	Ceiling Tile	SSN	Yes	52,275	37,050	(15,225)	
Mr. Murphy	Metal Roofing & building	56-6666666	Yes	51,170	51,170		
Mr. Bugman	Pest Control	SSN	Yes	39,292	17,675	(21,617)	
Northwest Construction	Landscaping	None	Yes 5	26,088	-		(26,088)
lil ZK	Medical Records Asst	None	6	1,469	-	(1,469)	
Lil ZK's Signs & Designs	Signs	None	7	1,469	-	(1,469)	
<b>Totals</b>				<b>\$ 2,338,970</b>	<b>\$ 1,512,838</b>	<b>(\$773,905)</b>	<b>\$ (52,227)</b>

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## Interview with Accounting Manager

- ▶ Of these vendors, Ms. TK the Accounting Manager indicated that at the direction of the former CFO, she altered the Great Plains system records for Mr. Bugman, causing FORM 1099-MISC to be under reported.
- ▶ She also stated that at the request of the former CFO, she showed Mr. Billy how to alter the Great Plains system to change what would be reported as non-employee earnings on FORM 1099-MISC.
- ▶ She acknowledged that Mr. Billy intended to change accounting records for the vendor Mr. Hammer'n'Nails and that he may have changed accounting records for the vendor C. Tiles.
- ▶ She explained that the former CFO told her that you don't charge amounts for materials on Form 1099 MISC

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## NC Fraud in the News

Former Eastpointe CFO ordered to **repay \$731,180**

08/10/2017 Crime | Local News | News No Comments



A former Eastpointe Chief Financial Officer was ordered to serve 3 1/2 years in prison and to repay \$731,180 and to serve three years of supervised probation once he is released from prison. He appeared before Senior United States District Judge Malcolm J. Howard in federal court in Greenville, North Carolina.

William "Bob" Canupp pled guilty in March in federal court and was sentenced on Wednesday. According to a press release from the Department of Justice, Canupp served as Chief Financial Officer for Eastpointe Human Services in Beaulaville from March 2010 to April 2013.

According to federal officials, Canupp hired Ronnie Davis to perform construction services without taking bids for the renovation projects and did not have the completed work inspected or approved. Canapè also generated fake invoices for Davis and embezzled fund of more than \$80,000 to purchase a boat, pay a mortgage on a beach house, and pay personal credit cards.

The funds were found to be missing during a 2015 audit of Eastpointe Human Services.

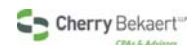
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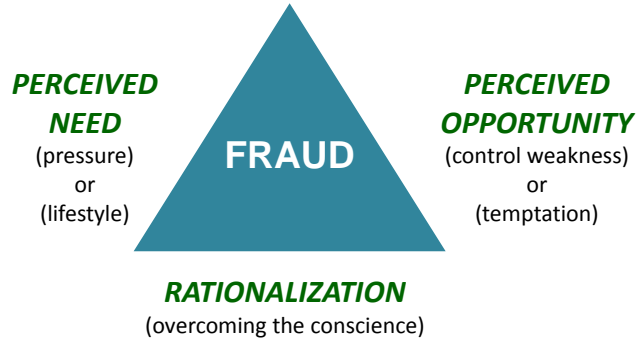
## NC Fraud in the News

- ▶ **Eastpointe Human Services** – Former regional mental health CFO took \$550,000 in apparent kickbacks, says state audit. (N&O June 2015).
- ▶ Wood (NC State Auditor) said Eastpointe did "possibly the smartest thing they could" in the wake of the problems by hiring a highly regarded accounting firm to examine its internal controls and by establishing a risk assessment committee that has the board more involved in oversight.

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## Fraud Theory & the Good Person

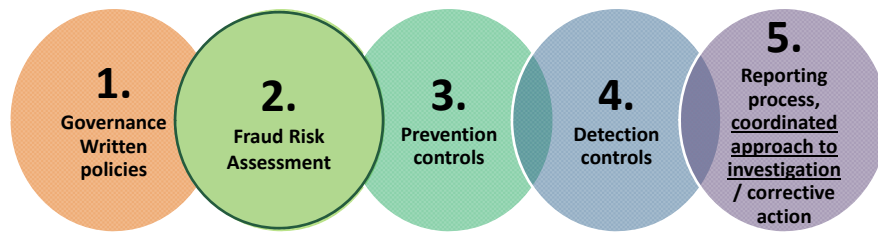


Cressey, "the Fraud Triangle"



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## 5 Key Principles to Manage Fraud



If you could only accomplish 1 principle, which is most impactful?

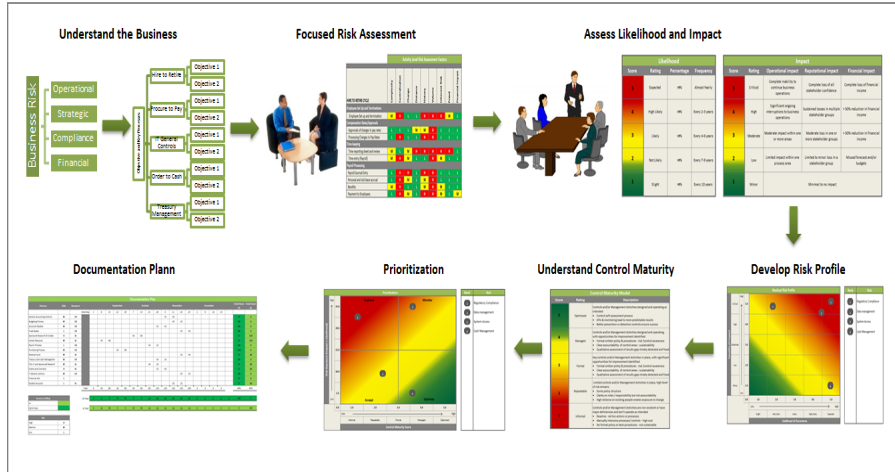
*Managing the Business - Risk of Fraud: A Practical Guide Joint Study conducted by The Institute of Internal Auditors, the American Institute of CPAs and the Association of Certified Fraud Examiners. Published July 2008*



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# Tailor the Risk Assessment



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# Control Maturity

	Scale	Model Levels	Control Capability Attributes
Regulation →	3	Formal	*Controls are well defined and documented *There is consistency even in times of change *Overall control awareness exists - control gaps are detected and remediated timely *Performance monitoring is informal *Greater reliance on the diligence of people and independent audits
Most Companies →	2	Functional	*Controls are established with some policy structure but some ambiguity still exist *Formal process documentation still lacking *Some clarity on roles, responsibilities and authorities, but not accountability *Increased discipline and guidelines support repeatability but risk of override exists *High reliance on existing personnel creates exposure to change
Stress →	1	Informal	*Controls are fragmented and ad hoc; generally managed in silos *Controls are reactive; lack of formal policies and procedures *High reliance on individuals to get things done *Exposure to change *Higher potential for errors and risk of management override not sustainable

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## Two Views of Risk Management

Risk management and control maturity are often driven by regulation.

1. Reactive to regulation:
  - Wrong motive to manage risk
  - Over-control—people don't "buy in"
  - Not sustainable
2. Clearly identify risks to objectives
  - Buy in
  - Better-designed controls
  - Sustainability

**When risk management makes sense, one of the de facto byproducts is regulatory compliance.**

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## Materiality?

Does your Org expect the audit firms to catch fraud?

Does the board of directors expect auditors to catch fraud?

The amount of the fraud can be relatively small but...

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## Discovery vs. Investigation

We look for potential problem areas while we are assessing the internal controls of a company and making recommendations to improve existing systems



Red Flags vs. losses



Counsel is used for attorney-client privilege & work product

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## Discovery vs. Investigation

- ▶ **An internal review (discovery)** is used to determine if sufficient **predication** exists to commence a fraud examination.
  - **Predication** is defined “the totality of circumstances that would lead a reasonable, professionally trained and prudent individual to believe a fraud has occurred, is occurring and/or will occur.”
- ▶ **A fraud examination (Investigation)** is an extension of a internal review to prove or disprove a suspected loss:
  - Determine whether a loss due to fraud has occurred
  - Determine the extent of loss (calculate estimated damages)
  - Determine whether sufficient evidence exist to:
    - Obtain a court order for further investigation e.g., off site search warrant of suspect’s property
    - Obtain a court order to seize or freeze assets
    - File criminal charges
    - File civil charges

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## Our Approach to Fraud Investigation

- ▶ **Coordinating with Management/Attorney (work product doctrine)**
  - Initial interviews and setting expectations
  - Determining the fraud area(s) and....avoid the wild goose chase
  - Policy and statute review
  - Digital forensics
  - Assessing control maturity
  - Data Analytics
  - Fraud investigation (Fraud Red Flags)
  - Forensic accounting and estimating losses
  - Working with/without law enforcement (Police Financial Crime Units)
- ▶ **Reporting**
  - Reporting results to management and the Board (Criminal, civil or both)
  - The District Attorney? SBI? FBI?
  - Pre and post litigation support

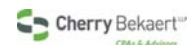
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## Capabilities You May Need



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## Questions

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