



Think like a Criminal to Catch a Criminal

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DoveLewis Annual Conference Speaker Notes

Introduction

Yes, it can happen to you. No business is immune to the risk of employee fraud, and the results can be especially devastating to small clinics. In this session, you will learn some of the most common ways to commit occupational fraud, and more importantly, the most effective ways to deter and/or detect it.

Overview

Occupational fraud has a very broad definition: “the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.” This definition covers a wide range of employee misconduct from stealing time (surfing the internet while on the clock) to stealing actual stuff (cash or equipment). Where do you draw the line? What is the ethical culture in your organization? Are you doing everything you can to reduce the possibility of fraud occurrence ... while increasing the probability of fraud detection?

Fraud Statistics

Occupational fraud is far more common than you might think. We will examine the data to reveal some interesting facts about fraud, primarily who these fraudsters are. Most of the statistics in this presentation have been sourced from the “2018 Report to the Nations” which is a global study on occupational fraud produced by the Association of Certified Fraud Examiners (ACFE). They have been gathering and analyzing data on real fraud cases for over 10 years. This publication is widely accepted as *the* resource for how occupational fraud is committed, how it is detected, who commits it and how organizations can protect themselves from it. This free report is available online, so if you want to dive deeper or share it with your team, go to <https://www.acfe.com/report-to-the-nations/2018/>.

The Magic Fraud Formula

Once we talk about who is committing these crimes, we will shift our focus to the how and why. Donald Cressey, a prominent sociologist and criminologist who made innovative

contributions to the study of white-collar crime back in the 1950's, developed the "Fraud Triangle". His research concluded that there were three necessary environmental/behavioral components in order for fraud to occur:

- A. Incentive
- B. Opportunity
- C. Rationalization

Generally speaking, all three elements of the triangle must exist for an individual to act unethically. Understanding these three elements can provide a useful guideline for organizations to assess their vulnerability to fraud and take steps towards minimizing risk.

Types of Occupational Fraud

After the who, how and why ... we will move on to the what. There are three primary categories of occupational fraud: asset misappropriation, corruption and financial statement fraud. This presentation will focus mainly on asset misappropriation, since these are the types of schemes that you will most likely face in a small business. We will look at how a fraudster might perpetrate these types of crimes, and discuss some real life cases:

- Skimming / Voids
- Unauthorized Discounts
- Fictitious Returns / Sales Adjustments
- Procurement Fraud
- Check Forgery
- Purchasing Conflict of Interest
- Fictitious Invoices
- Expense Reimbursement Fraud
- Ghost Employees

Prevention versus Detection

Experts agree that it is easier to prevent than to detect fraud. Having a robust system of internal controls in place is your most effective means of prevention. Internal control procedures fall into one of five categories:

1. Authorization of Transactions
2. Segregation of Duties
3. Adequate Documentation
4. Safeguarding of Assets
5. Reconciliation & Review

In addition to your internal control system, there are several other things you can do to help protect your organization. Pay attention to red flags. Almost all fraudsters in the ACFE study exhibited at least one of these common red flags:

1. Living beyond means
2. Financial difficulties
3. Unusually close association with vendor or customer
4. Excessive control issues or unwillingness to share duties
5. Recent divorce or family problems

As the manager or owner of a small clinic, you will probably want to direct your antifraud efforts towards the most cost-effective controls, such as setting an ethical tone at the top, providing employee education, and establishing a reporting mechanism. Every organization should have a whistleblower policy in place, giving employees clear guidelines to follow if they believe misconduct is taking place. Your policy should include sections on all of the following:

- Employee responsibility for reporting
- Reporting procedure (consider implementing a hotline)
- Requirement to act in good faith
- Confidentiality, to the extent possible
- No retaliation or recrimination

In the end, occupational fraud hurts not only you as the employer, but all of your other employees as well. Be aware, put controls in place, educate your team and embrace one of my favorite Russian proverbs: Доверяй, но проверяй (trust, but verify).