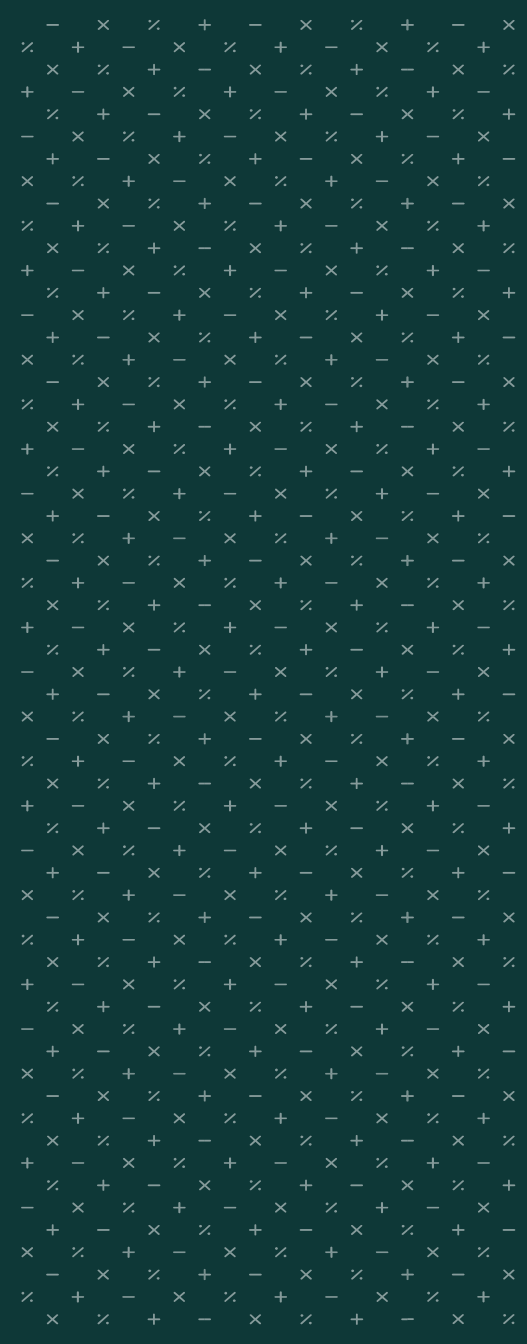




Fraud Detection and Prevention

Ryan Stucky, Senior Manager, Moss Adams

Aran Loftus, Senior Manager, Moss Adams





Roadmap:

Math Lesson

Common Frauds

Brainstorm

Case Studies

Global Trends

Quiz!



Math Lesson

$$c^2 = a^2 + b^2$$



$$180 = a + b + c$$

The Fraud Triangle

Rationalization

Justification of dishonest actions.

FRAUD

Opportunity

Ability to carry out misappropriation of cash or organizational assets.

Pressure

Motivation or incentive to commit fraud.

Why is Fraud Committed?



Opportunity:

- Lack of supervision
- Management override of controls
- Poor record keeping
- Extreme trust in a single individual
- Lack of disciplinary action/reporting for previous frauds
- Poor segregation of duties

Why is Fraud Committed?

Pressure:

- A gambling or drug habit
- Personal debt or poor credit
- Medical expenses
- A significant financial loss
- Peer or family pressure to succeed



Why is Fraud Committed?



Rationalization:

- I was only borrowing the money and planned to repay it.
- The company won't even realize this amount is gone; it's not that much.
- I've been working with the company for 15 years. They owe it to me.
- I'll stop once I pay off my debts.
- I deserved this after the way the company has treated me.

Who Commits Fraud?

Non-Fraud-Related Misconduct

- Over 40% of fraudsters had engaged in some form of non-fraud workplace violations (bullying or intimidation most common)

Behavioral Red Flags

- Living beyond means
- Complaining about money
- Stops complaining about money
- Keeps too much control considering position (unwilling to share duties)
- Frequent delays when requesting information
- Doesn't follow vacation policy



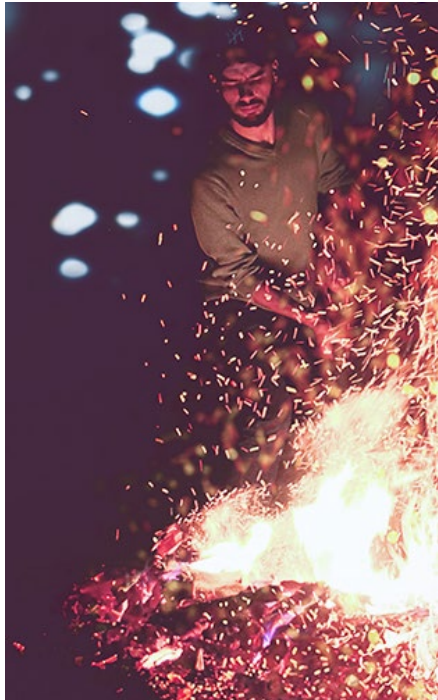
Types of Fraud

Asset Misappropriation: schemes in which the employee steals or misuses an organization's assets

- Tampering with monetary instruments
- Accessing member accounts
- Fraudulent loans
- Overstating reimbursable expenses



Types of Fraud



Financial Statement Fraud: fraud schemes involving the intentional misreporting of an organization's financial information with the intent to mislead others

- Creating fictitious revenues
- Overstating assets
- Understating expenses
- Concealing liabilities
- Managing earnings



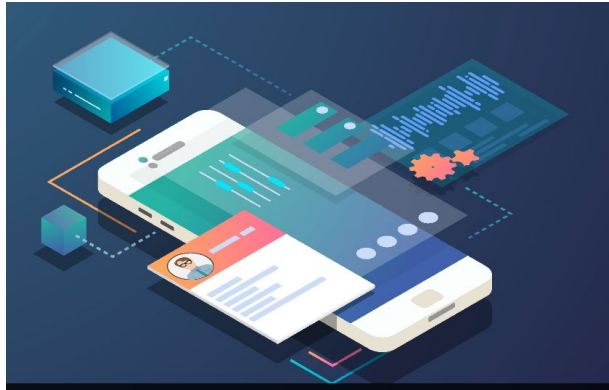
Types of Fraud

Corruption: schemes in which a fraudster wrongfully uses his influence in a business transaction for the purpose of obtaining a benefit for himself or another person

- Conflicts of interest
- Illegal gratuities
- Bribery



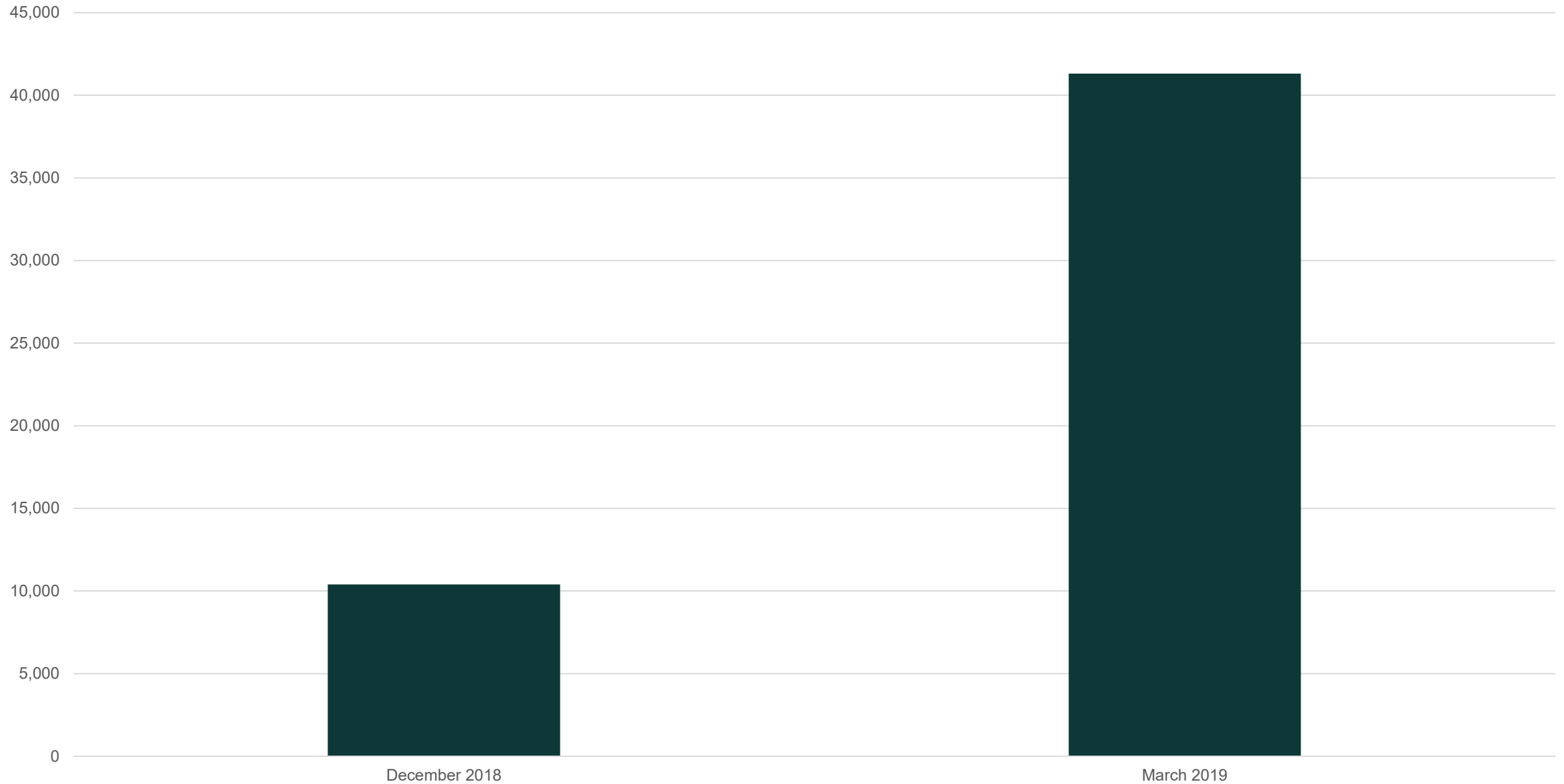
Types of Fraud



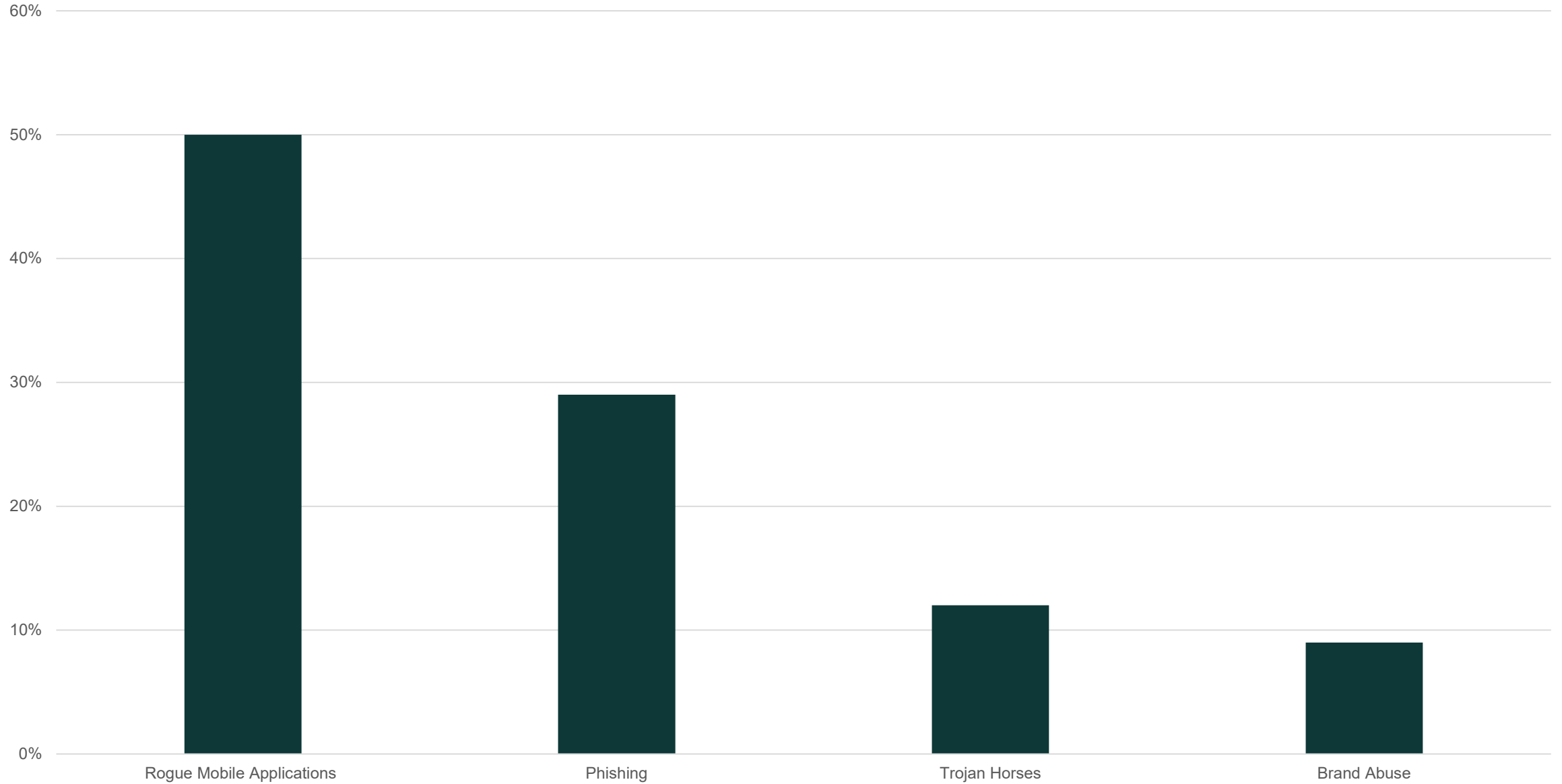
Fraud committed by outsiders: Fraud committed using the internet, mobile applications, and telephone

- Accessing personal data using web and mobile based applications
- Obtaining personal financial information directly from the victim by gaining his or her trust
- Stealing funds using threats or coercion

Mobile Application Fraud



Digital Fraud





Brainstorm!



Case Studies





CBS Credit Union Manager Pleads Guilty to \$40 Million Fraud

Longtime CU Employee Pleads Guilty to Embezzlement

CEO of New York's Oldest Credit Union Faces Fraud and
Embezzlement Charges

**Man gets up to 20 years for embezzling from Clarkston
credit union**

**Former president of Charlotte credit union
indicted on federal fraud charges**

**Ex-credit union CEO accused of embezzling more than
\$700K**

**Credit Union CEO Sentenced to
Federal Prison**



Credit Union Fraud Case #1

What happened?

- The CEO and President of a Credit Union used falsified invoices and expense reports to steal approximately \$6 million over 5 years.

How was it caught?

- Discovered due to an anonymous tip.

What went wrong?

- Lack of oversight
- Management override of controls

How could it have been prevented?

- Controls over accounting, accounts payable, and ACH processing functions
- Higher awareness of the potential for management override



Credit Union Fraud Case #2

What happened?

- Credit Union CEO stole approximately \$40 million over 30 years.

What went wrong?

- Segregation of duties
- CEO was well-liked and trusted
- Forged signature

How could it have been prevented?

- Better controls including segregation of duties
- Financial statement audit – confirmation procedures



Credit Union Fraud Case #3

What happened?

- COO stole over \$465k in the course of seven years to fund lifestyle

How was it caught?

- Not disclosed in court filings or by the authorities. Likely a tip.

What went wrong?

- Lack of segregation of duties
- Lack of review of employee accounts

How could it have been prevented?

- Segregation of duties over ability to post to accounts
- Employee account reviews



Commonality

Capability

- Technical skills to take advantage of opportunity
- Intelligence to exploit control weaknesses
- Ability to deal with the stress
- Organizational positioning
- Deception skills to lie to the board, auditors, and others and maintain that lie over time



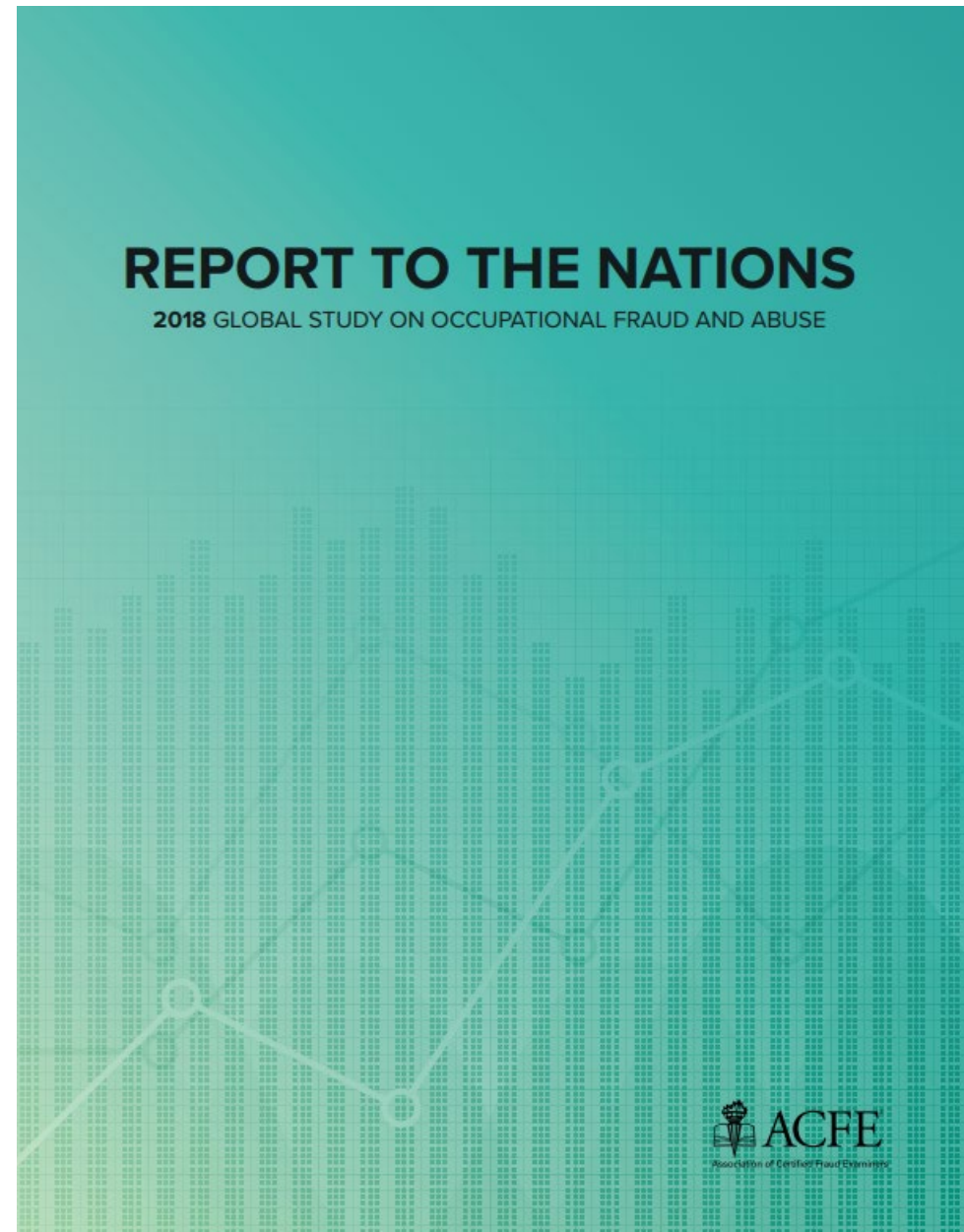
Association of Certified Fraud Examiners



The ACFE is the world's largest anti-fraud organization

Together with more than 75,000 members, the mission is to reduce the incidence of fraud and white-collar crime.

Premier provider of anti-fraud training and education.



KEY FINDINGS

2,690
real cases of
occupational fraud
from
125 countries
in
23 industry
categories

\$7 BILLION+
IN TOTAL LOSSES

\$130,000
MEDIAN LOSS PER CASE

22%
OF CASES CAUSED
LOSSES OF
\$1 MILLION+



Median duration
of a fraud scheme



16
MONTHS

CORRUPTION

was the most common scheme
in every global region



Who Commits Fraud?

FRAUD COMMITTED BY OWNERS AND EXECUTIVES

Occupational frauds committed by owners/executives tend to be extremely costly. How do these cases differ from non-owner/executive frauds?

MEDIAN LOSS



CORRUPTION AND FINANCIAL STATEMENT FRAUD ARE THE TWO COSTLIEST FORMS OF OCCUPATIONAL FRAUD



IN
85%

OF CASES

FRAUDSTERS DISPLAYED AT LEAST
ONE BEHAVIORAL RED FLAG

AND IN

50%

OF CASES

THEY EXHIBITED
MULTIPLE RED FLAGS

These
**6 BEHAVIORAL
RED FLAGS**

have been the most common in every one of our studies dating back to 2008, with a remarkably consistent distribution

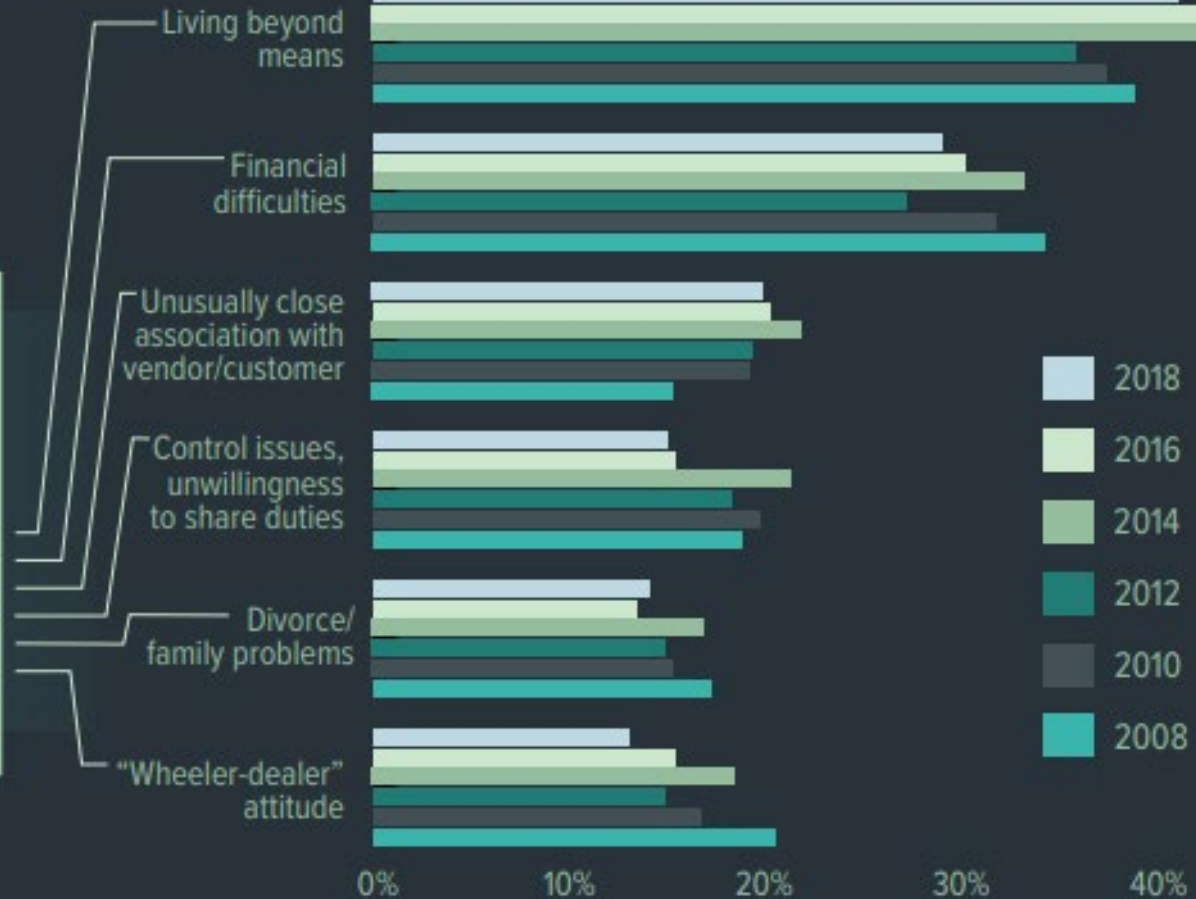


FIG. 26 How does the perpetrator's tenure relate to occupational fraud?

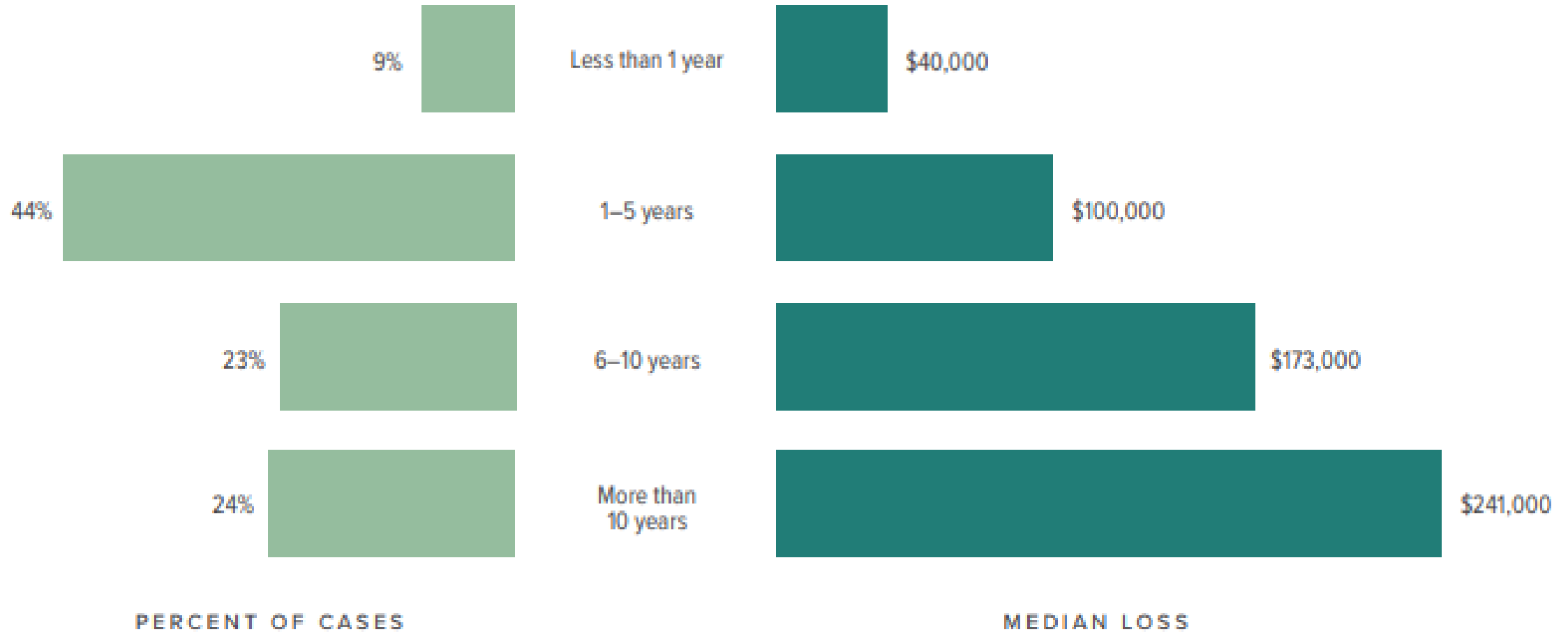
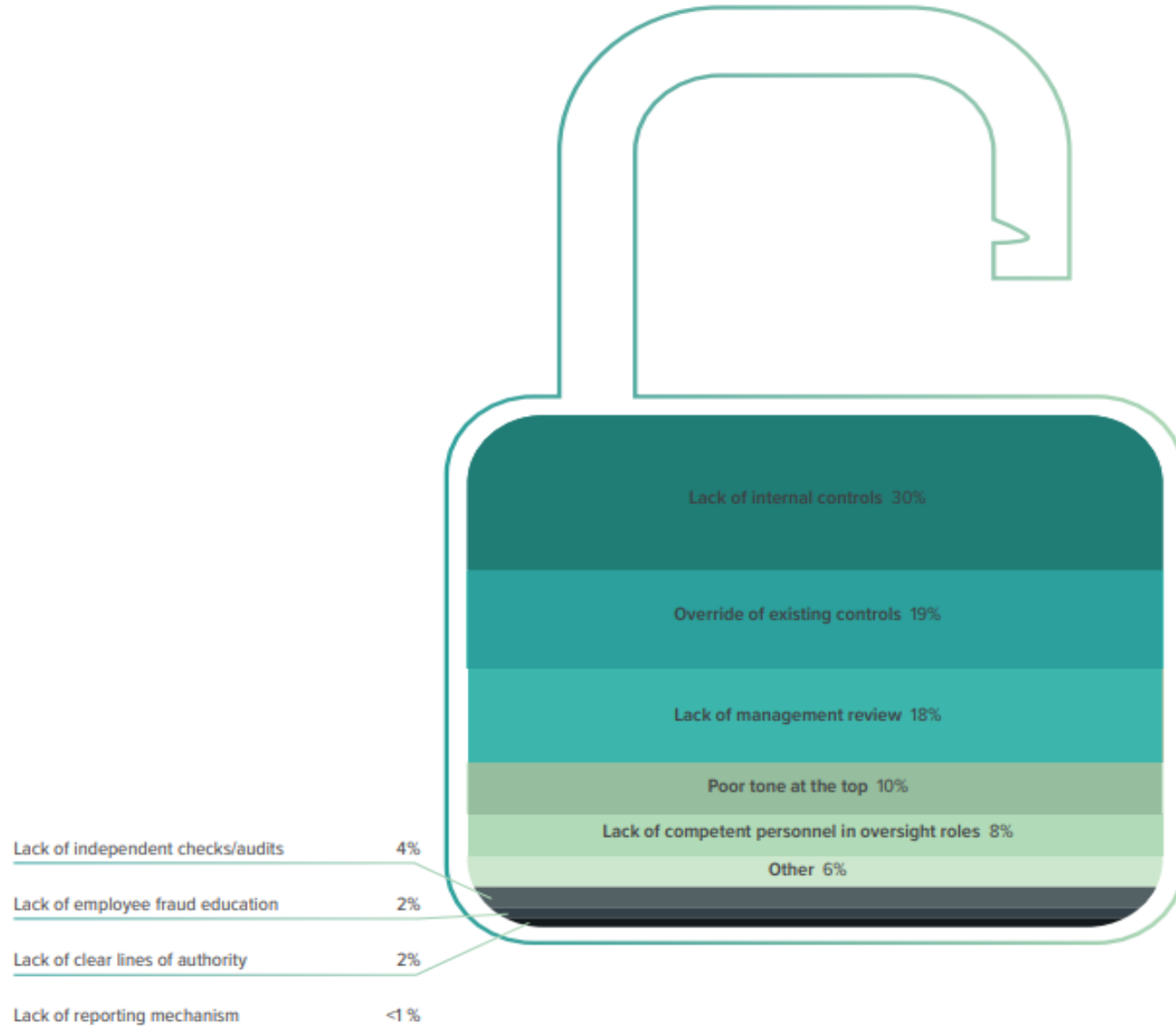
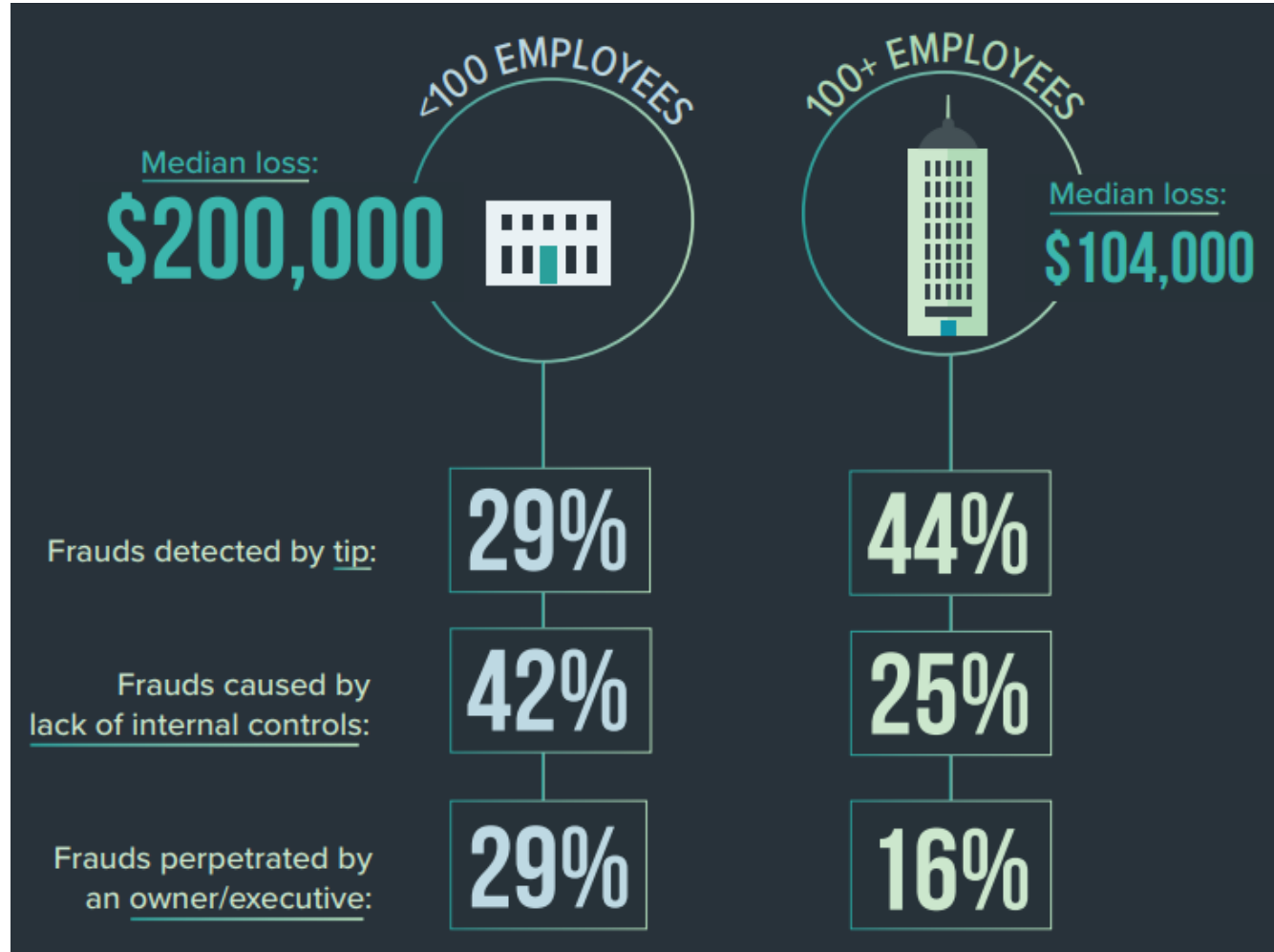


FIG. 22 What are the primary internal control weaknesses that contribute to occupational fraud?



Victim Organizations

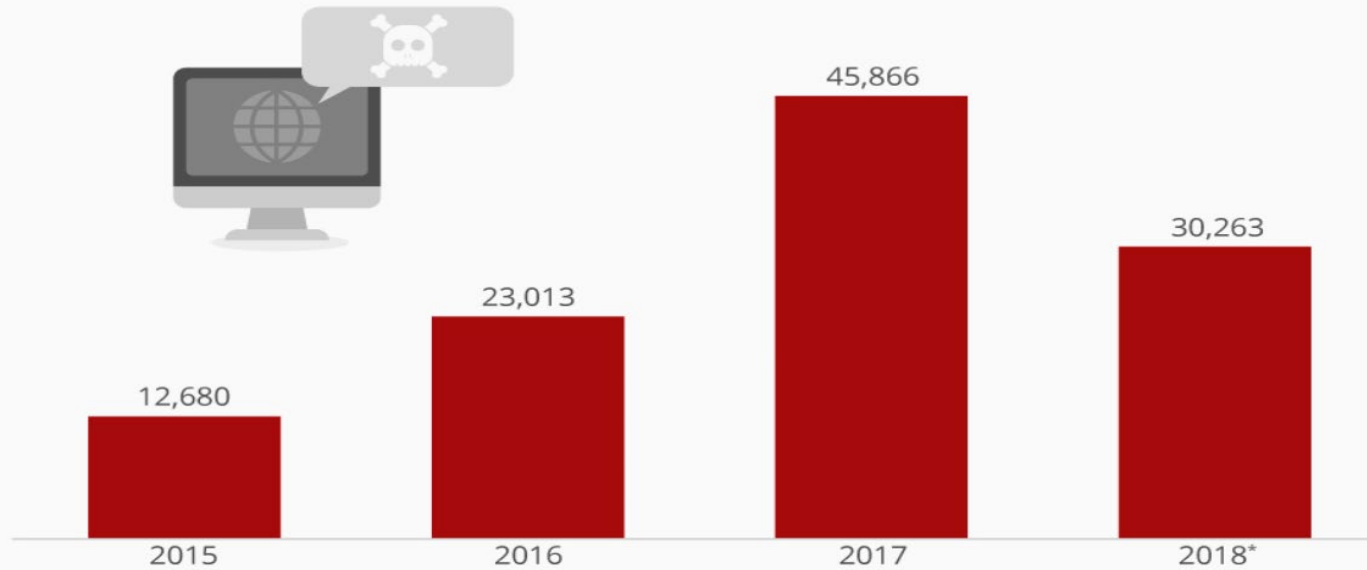




Internet Fraud

Internet Scamming is on The Rise

Internet scams filed with the BBB Scam Tracker



CC BY ND
@StatistaCharts

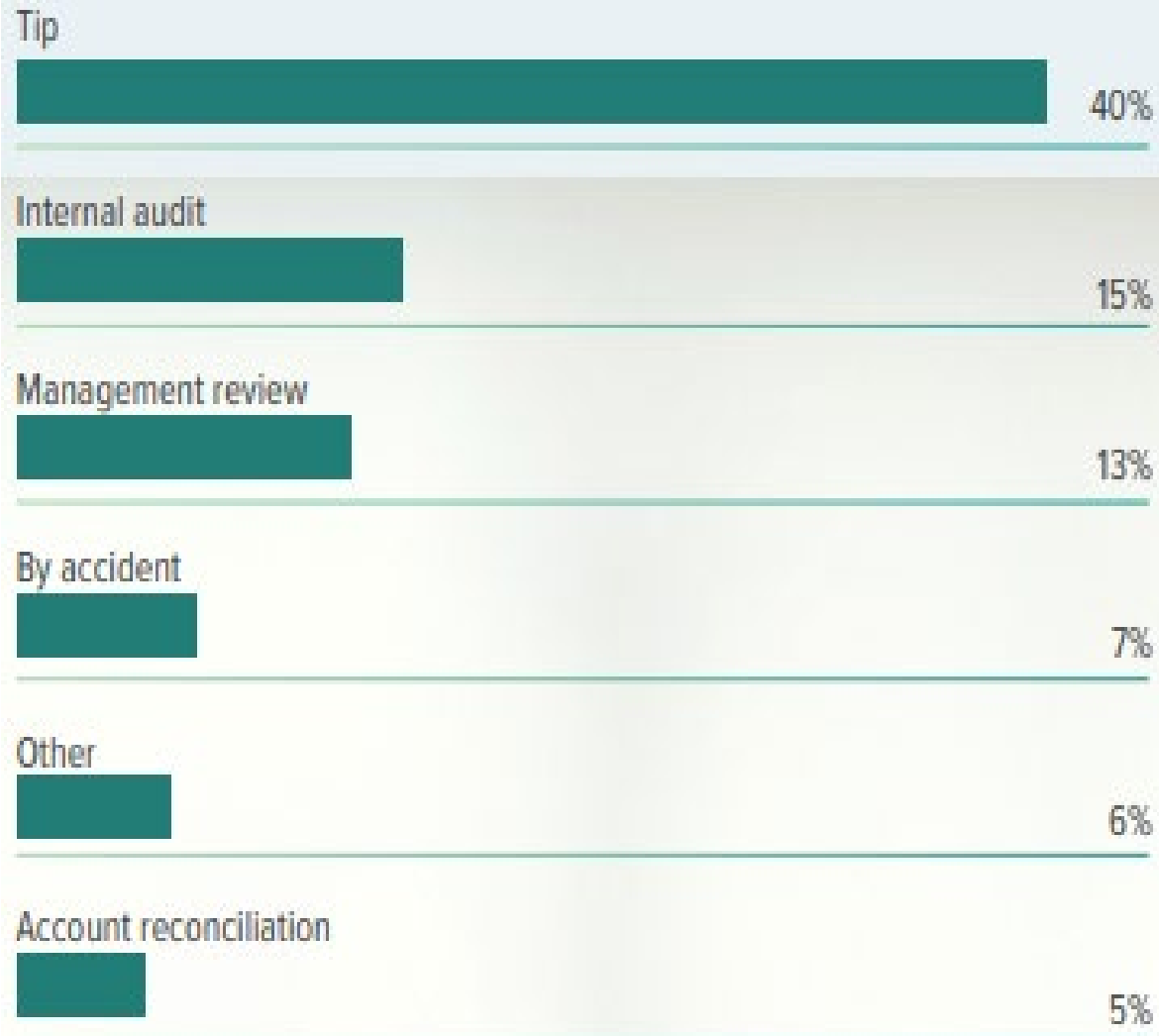
* as of August 13, 2018

Source: BBB

statista

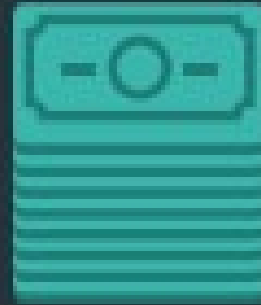


FIG. 9 How is occupational fraud initially detected?

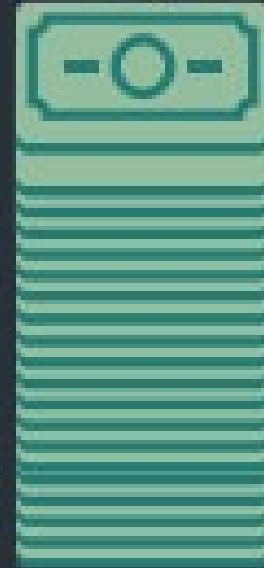


Fraud losses were
50% SMALLER
at organizations
with hotlines
than those without

\$100,000



\$200,000



Organizations without hotlines were
more than **TWICE AS LIKELY** to detect
fraud by accident or by external audit



CONCEALING FRAUD

An act of fraud typically involves not only the commission of the scheme itself, but also efforts to conceal the misdeeds. Understanding the methods fraudsters use to cover their crimes can help organizations better design prevention mechanisms and detect the warning signs of fraud.

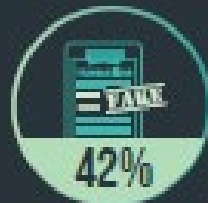
TOP 8 CONCEALMENT METHODS USED BY FRAUDSTERS



Created fraudulent physical documents



Altered physical documents



Created fraudulent transactions in the accounting system



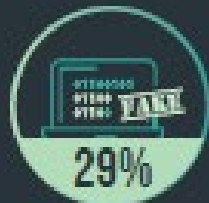
Altered transactions in the accounting system



Altered electronic documents or files



Destroyed physical documents



Created fraudulent electronic documents or files



Created fraudulent journal entries

RECOVERING FRAUD LOSSES

After a fraud has been detected, the victim might try to recover its losses from the fraudster or other sources. Our data shows that victims are rarely made whole.

53%
RECOVERED
NOTHING

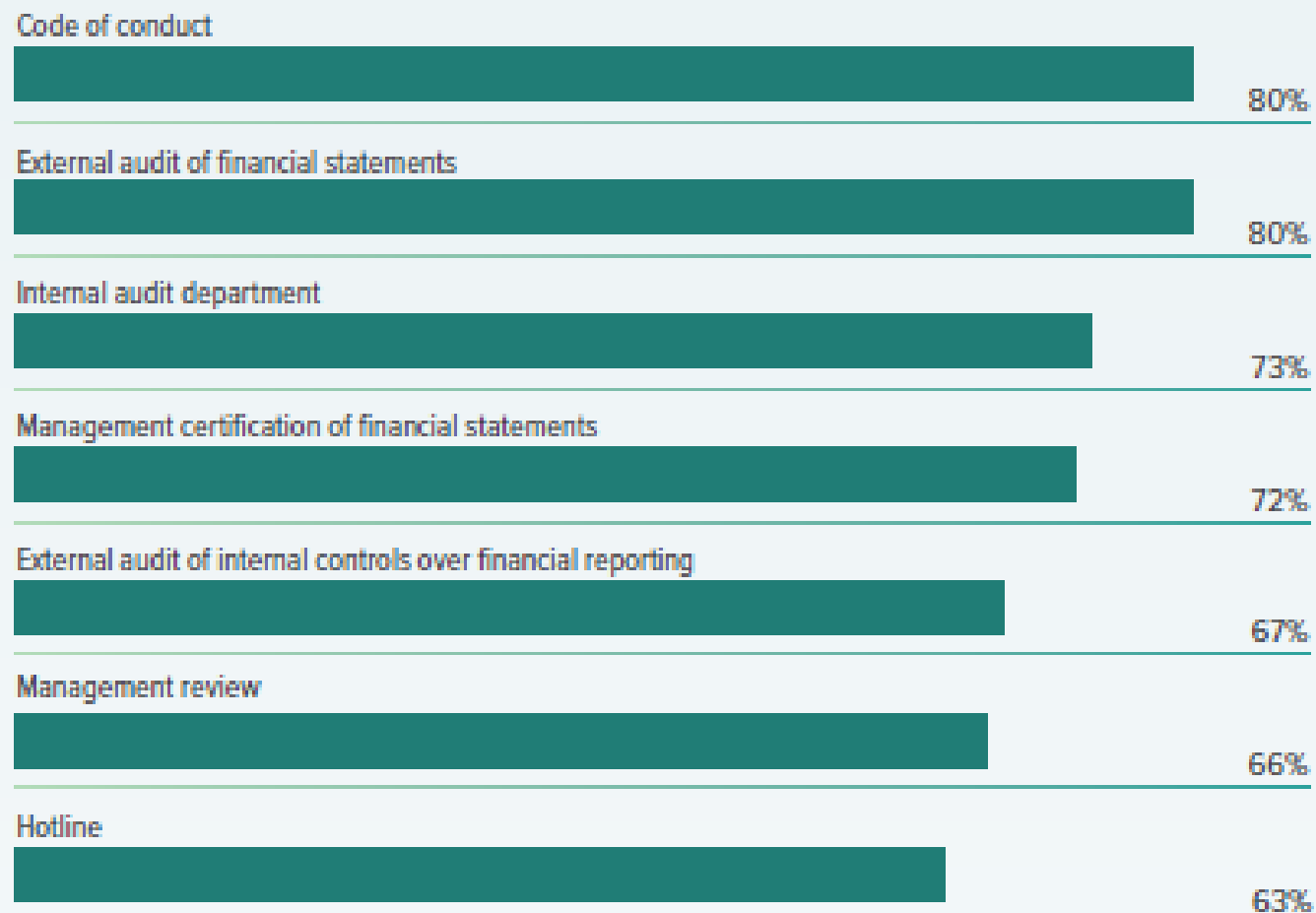


15%
RECOVERED
ALL LOSSES

32%
MADE A PARTIAL
RECOVERY



FIG. 17 What anti-fraud controls are most common?

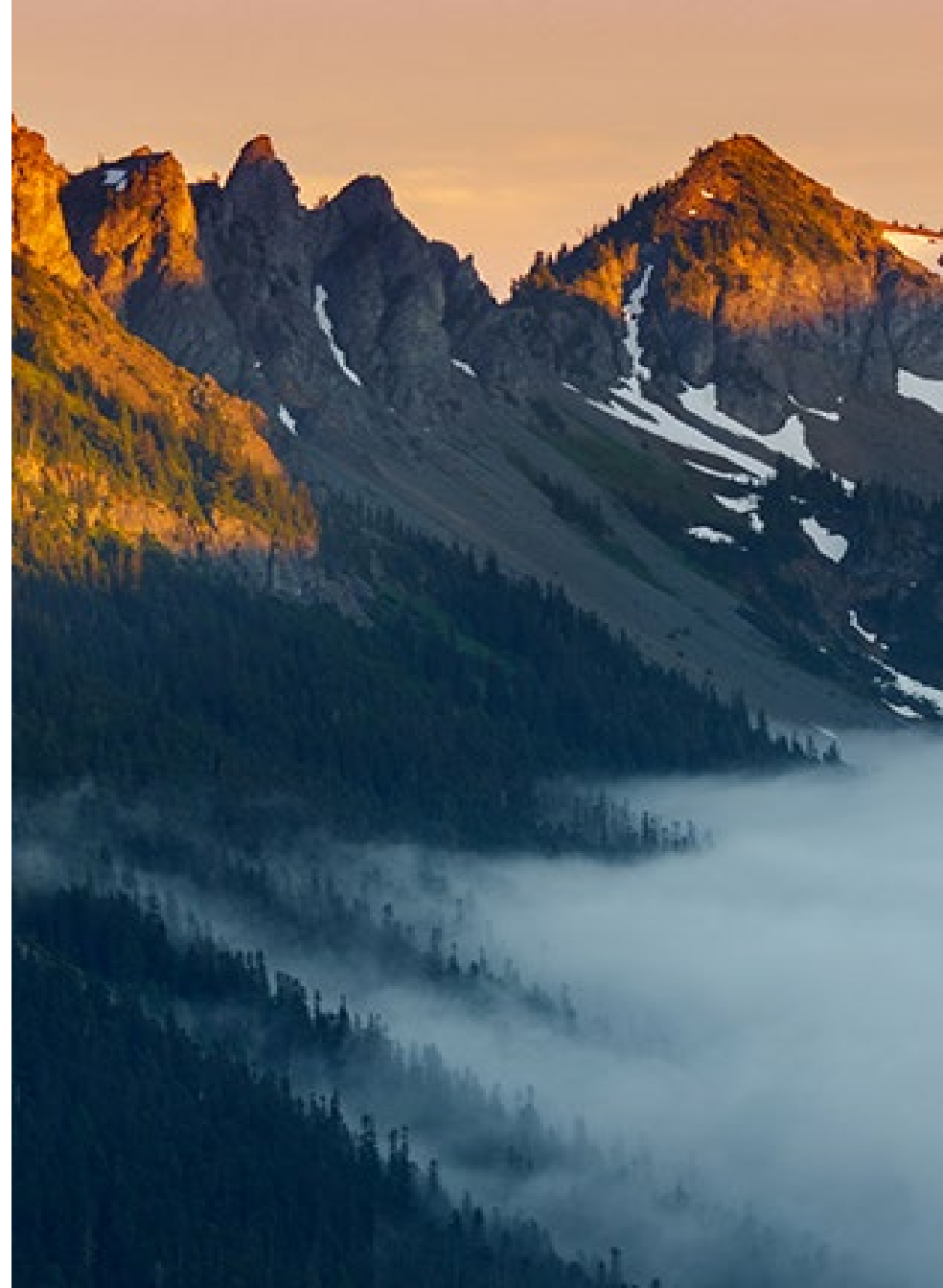


Safeguards and Internal Controls

- Whistleblower hotline
- Appropriate cybersecurity controls
- Mandatory vacations
- Appropriate training at all levels
- Annual independent audit
- Board oversight
- Segregation of duties
- Appropriate dual controls in place
- Written fraud policy
- Employee Account Reviews



QUIZ!



Which of the following is a best practice for protecting member information:

A) Install security updates and patches periodically

B) Use passphrases rather than passwords to control network access

C) Store member info on laptops rather than on the network

D) Store member information on a computer connected to the internet




Which of the following would be a red flag to potential financial statement fraud?

- A) Financials issued as of Feb. 28 even though books closed Jan. 15
- B) Financials have been reviewed by a CPA (AUP) but never audited
- C) The Credit Union changes auditors periodically due to disagreements
- D) Only current year information is displayed rather than comparative



Which poses the greatest risk for fraud to organizations?

- A) Theft of noncash assets
- B) Billing schemes
-  C) Expense reimbursement schemes
- D) Financial statement fraud

-Questions and answers sourced from the Journal of Accountancy, June 2019, November 2018 and July 2018.



Questions
and/or
Experiences?



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THANK YOU