



**Association of Credit Union Audit and Risk Professionals
Region 5 Annual Meeting**
SARS AND THE SOARING CASES OF FRAUD

October 1, 2024

Introduction



Robert Sprague, CPA

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Bob is a member of the Forensics & Valuation practice unit where he provides fraud investigation, forensic accounting, and litigation consulting services. His experience encompasses a wide spectrum of financial consulting matters spanning multiple industries and client types. Bob works closely with corporate stakeholders, in-house and outside counsel, auditors, and special committees on forensic and fraud investigations with an emphasis on SEC enforcement matters and fraudulent financial reporting.

His experience also includes investigations related to the Foreign Corrupt Practices Act, commercial litigation involving technical accounting issues, assisting clients with post-acquisition accounting disputes, and conducting proactive compliance-related work, such as anti-corruption assessments and broader compliance program related assessments, on behalf of public and private companies.

Prior to joining the Forensics & Valuation practice unit, Bob spent more than 22 years working for two global professional service firms. He also worked as an enforcement accountant in the enforcement division of the SEC, where he investigated potential securities laws violations. Bob's prior experience also included conducting financial statement audits on behalf of multinational public and private companies.

Bob is a graduate of Bates College, Lewiston, Maine, with a B.S. degree in economics, and a graduate of Northeastern University, Boston, Massachusetts, with an M.B.A. degree and an M.S.A. degree.



Forvis Mazars

Overview

With a legacy spanning more than 100 years, Forvis Mazars is committed to providing a different perspective and an unmatched client experience that feels right, personal and natural. We respect and reflect the range of perspectives, knowledge and local understanding of our people and clients. We take the time to listen to deliver consistent audit and assurance, tax, advisory and consulting services worldwide.

We nurture a deep understanding of our clients' industries, delivering greater insight, deeper specialization and tailored solutions through people who listen to understand, are responsive and consult with purpose to deliver value.

Global Industry & Services

Forvis Mazars' deep understanding of industry-specific environments, issues and trends helps us anticipate and address evolving needs to prepare you for strategic opportunities ahead.

Every industry is different, and we put a strong focus on specific industry experience and knowledge of your complex and evolving environment. We provide a range of audit and assurance, tax, advisory and consulting services to help your business by bringing together experienced professionals from all over the globe who understand local contexts and cultures.

We serve global industries including:

- Financial Services
- Manufacturing & Distribution
- Technology, Media & Telecommunications
- Life Sciences
- Private Equity

\$5B

Combined Revenue
(2023)

100+

Combined Countries,
Territories & Markets

400+

Combined Offices
& Locations

1,800+

Combined Partners

40,000+

Combined Team Members

forvismazars.com/global

Forvis Mazars is the brand name for the Forvis Mazars Global network (Forvis Mazars Global Limited) and its two independent members: Forvis Mazars, LLP in the United States and Forvis Mazars Group SC, an internationally integrated partnership operating in over 100 countries and territories.

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**forvis
mazars**

Global Presence

Top 10

U.S. Public Accounting Firm*

\$5bn

Combined Revenue (2023)

100+

Combined Countries & Territories

400+

Combined Offices & Locations

1,800+

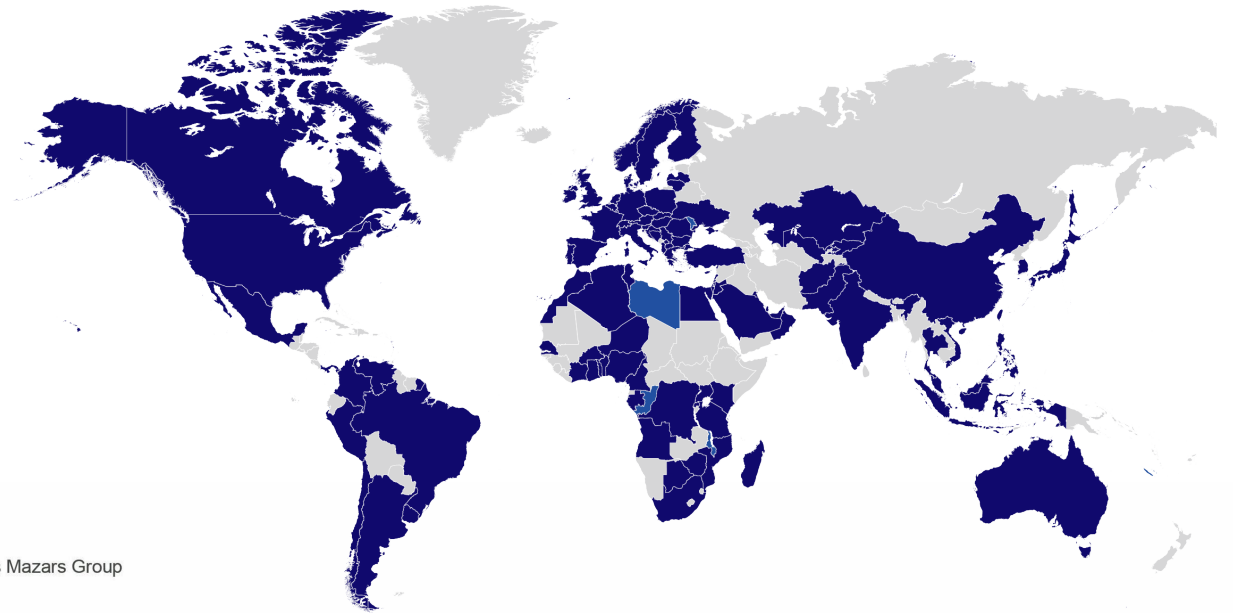
Combined Partners

40,000+

Combined Employees

*Source: Inside Public Accounting, based on most recent rankings 2023 revenues: FORVIS \$1.7bn, Mazars USA (expected) \$305M

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As of June 1, 2024

- Forvis Mazars
- Correspondents of Forvis Mazars Group

- | | | | | | | |
|--------------------------|--|--------------|--------------|-------------------|----------------|------------------------|
| ■ Afghanistan | ■ Cameroon | ■ France | ■ Korea | ■ Morocco | ■ Qatar | ■ Togo |
| ■ Albania | ■ Canada | ■ Gabon | ■ Kosovo | ■ Mozambique | ■ Romania | ■ Tunisia |
| ■ Algeria | ■ Cayman Islands | ■ Germany | ■ Kuwait | ■ Netherlands | ■ Rwanda | ■ Türkiye |
| ■ Angola | ■ Chile | ■ Ghana | ■ Kyrgyzstan | ■ New Caledonia | ■ Saudi Arabia | ■ Uganda |
| ■ Argentina | ■ China | ■ Greece | ■ Latvia | ■ Niger | ■ Senegal | ■ Ukraine |
| ■ Australia | ■ Colombia | ■ Hong Kong | ■ Lebanon | ■ Nigeria | ■ Serbia | ■ United Arab Emirates |
| ■ Austria | ■ Congo | ■ Hungary | ■ Libya | ■ North Macedonia | ■ Singapore | ■ United Kingdom |
| ■ Bahrain | ■ Côte d'Ivoire | ■ India | ■ Lithuania | ■ Norway | ■ Slovakia | ■ United States |
| ■ Belgium | ■ Croatia | ■ Indonesia | ■ Luxembourg | ■ Oman | ■ Slovenia | ■ Uruguay |
| ■ Benin | ■ Cyprus | ■ Ireland | ■ Madagascar | ■ Pakistan | ■ South Africa | ■ Uzbekistan |
| ■ Bermuda | ■ Czech Republic | ■ Israel | ■ Malawi | ■ Palestine | ■ Spain | ■ Venezuela |
| ■ Bosnia and Herzegovina | ■ Democratic Republic of the Congo (DRC) | ■ Italy | ■ Malaysia | ■ Panama | ■ Sweden | ■ Vietnam |
| ■ Botswana | ■ Denmark | ■ Japan | ■ Malta | ■ Peru | ■ Switzerland | ■ Zimbabwe |
| ■ Brazil | ■ Egypt | ■ Jordan | ■ Mauritius | ■ Philippines | ■ Taiwan | |
| ■ Bulgaria | ■ Finland | ■ Kazakhstan | ■ Mexico | ■ Poland | ■ Tanzania | |
| ■ Burkina Faso | | ■ Kenya | ■ Moldova | ■ Portugal | ■ Thailand | |

U.S. Presence

Top 10 **\$2bn**

U.S. Public
Accounting Firm*

Revenue (2023)

79

Markets

28

States

600+

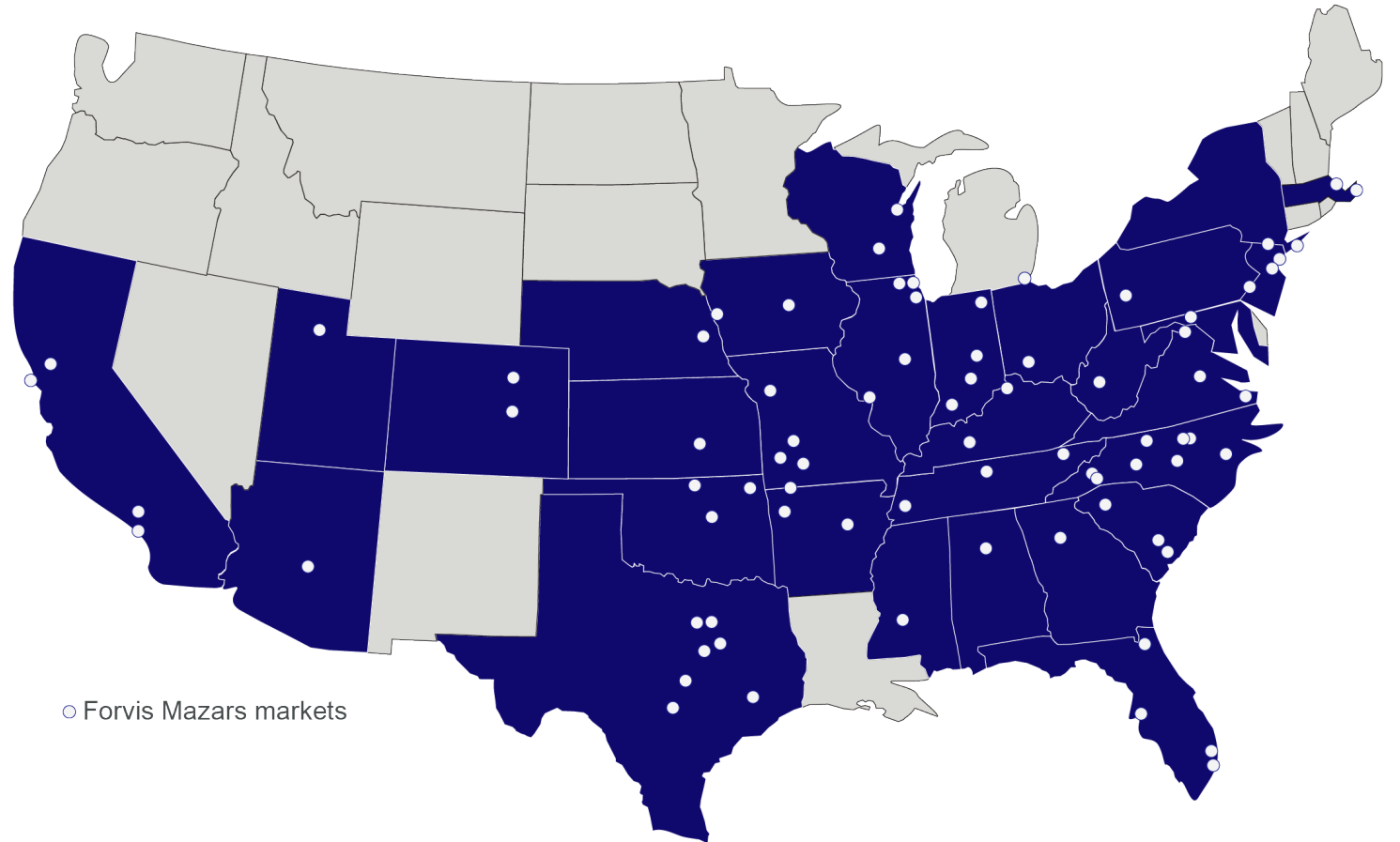
Partners & Principals

7,000+

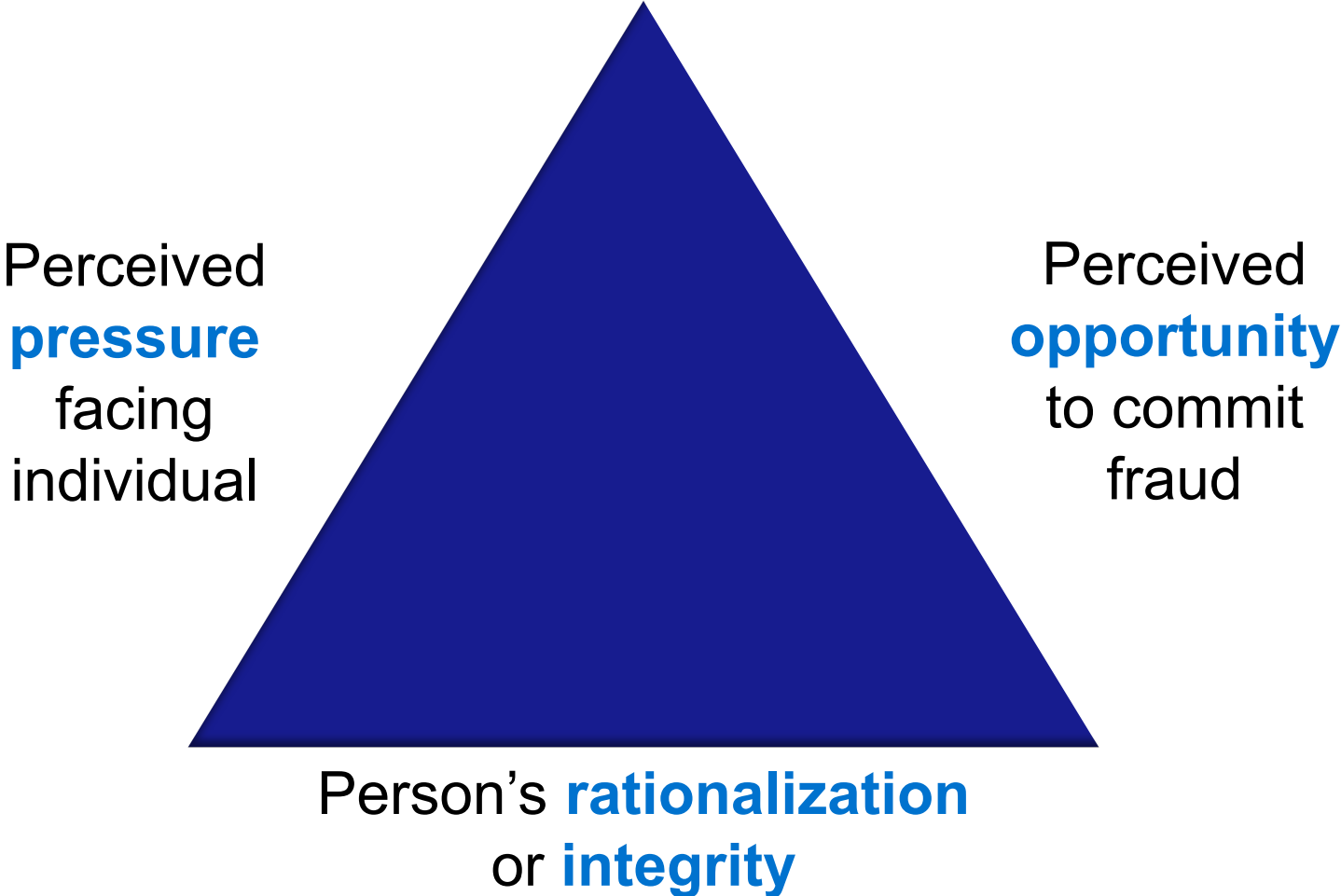
Employees

*Source: Inside Public Accounting, based on most recent rankings

2023 combined revenues: FORVIS \$1.7bn, Mazars USA (expected) \$305M



Back to Basics – The Fraud Triangle



Response to Internal Auditor

See here an example of behavior dismissed from a “Golden Child”

Damn [REDACTED], sounds like you have a [REDACTED] for him. I don't think some of your facts are correct, but I am leaving to go to Florida in about 30 minutes and I will be gone until Monday, August 5th. But, I will leave you with a few facts of our own and [REDACTED] can elaborate further.

Today, his LOC is fully tapped. But, if you check the history, the line does revolve numerous times weekly.

His DDA is overdrawn, but we have some deposits to make on him tomorrow to reconcile the account. Mr. [REDACTED] does run occasionally overdraw, but I keep it within reason and charge him for every item.

All of his loans are in the grace period, 15 days, past due. With the exception on the renewal that [REDACTED] needs to sign.

When we finance a car that is on the floor plan and it is only floored for \$2500, that is all we apply back to the floor plan, he does get the difference.

Yes, and sometimes we make loans to customers that don't have spotless credit, but the majority of our losses are small compared to what we make by charging 12.5%.

For the majority, we finance autos with in loan value, but sometimes we do go over.

Standard repo fee is \$300. Sometimes we do stick money in these cars to make it worth our while.

This line of credit and term loans were approved by [REDACTED]. We have the autos and real estate all cross collateralized and are in a decent collateral position. Mr. [REDACTED] has past the last 4 annual examinations we received from the FDIC and the state....even [REDACTED] looked at him this year with no problems.

I know [REDACTED] needs to step up the review on the floor plans and we have discussed it.

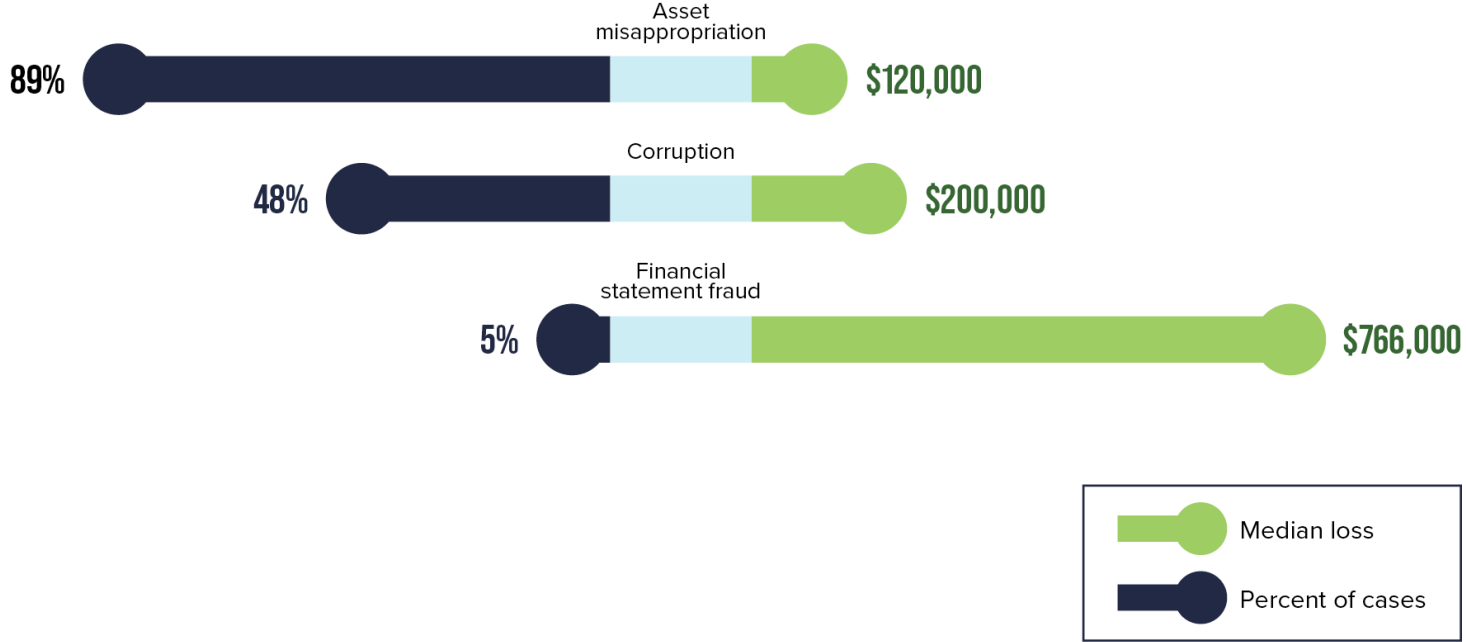
Right now, I don't lose any sleep on the [REDACTED] relationship. All of his debt is amortizing with the exception of his LOC. Also, in the scheme of things, a \$250K secured LOC doesn't worry me much.

I don't want to get into an email contest, but I don't know exactly what you want us to do? I plan on not worrying too much about [REDACTED] for the next 7 days.

OCCUPATIONAL FRAUD 2024:
A REPORT TO
THE NATIONS®

How is Occupational Fraud Committed

FIG. 2 HOW IS OCCUPATIONAL FRAUD COMMITTED?

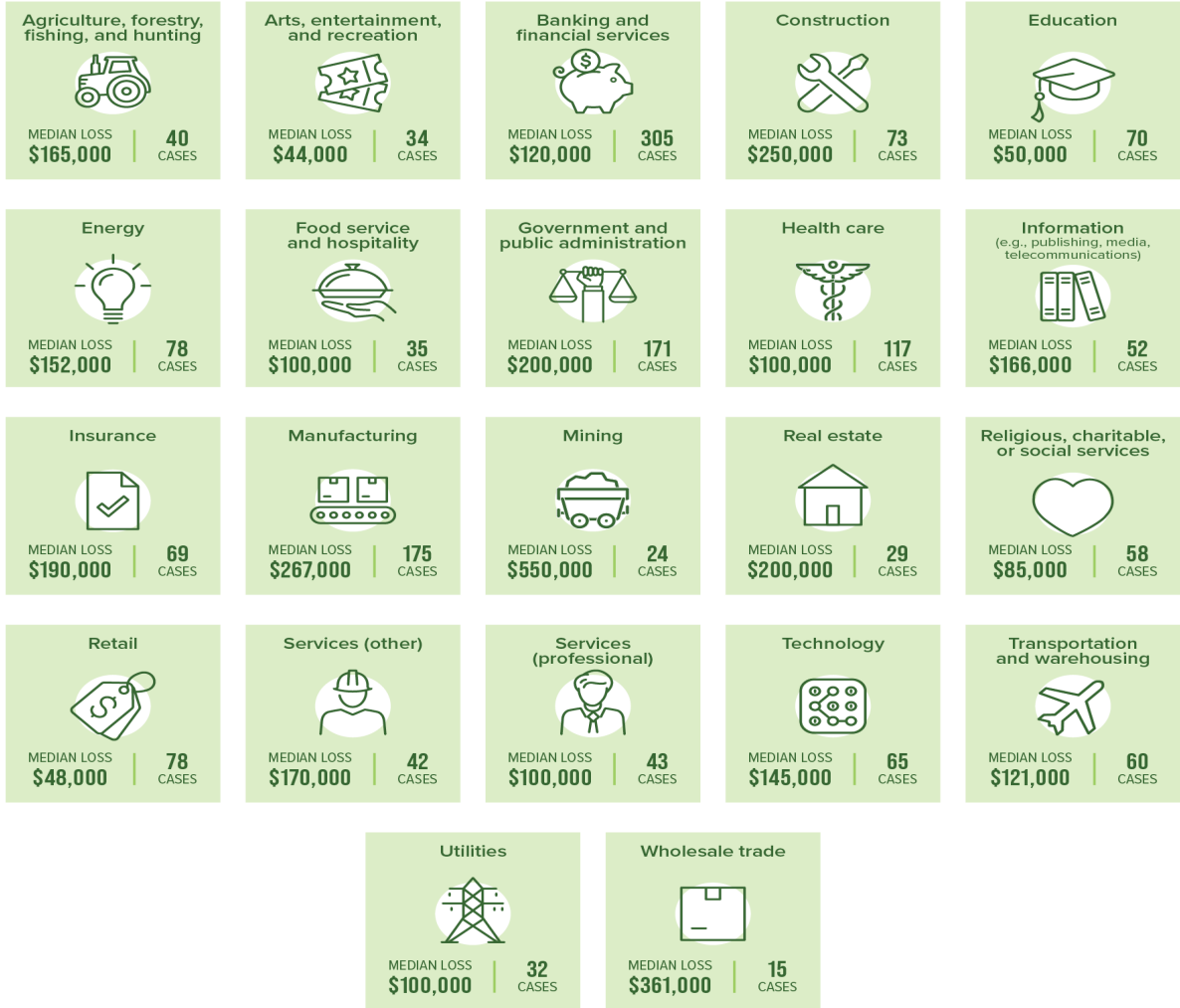


Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

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Occupational Fraud by Industry

FIG. 25 HOW DOES OCCUPATIONAL FRAUD AFFECT ORGANIZATIONS IN DIFFERENT INDUSTRIES?



Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

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Occupational Fraud Types by Industry

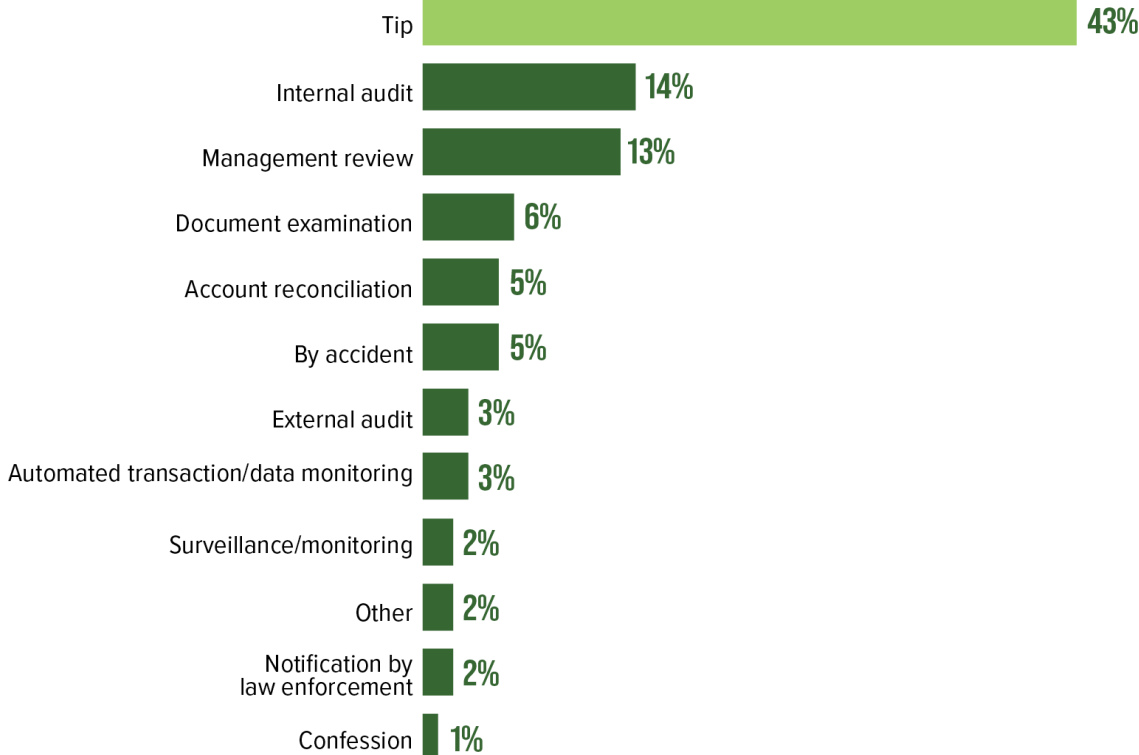
FIG. 26 WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN VARIOUS INDUSTRIES?

Industry	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	305	12%	12%	18%	14%	44%	6%	5%	16%	4%	4%	8%
Manufacturing	175	27%	6%	4%	7%	55%	17%	6%	29%	10%	1%	9%
Government and public administration	170	24%	15%	8%	14%	52%	15%	4%	15%	18%	4%	11%
Health care	117	38%	9%	8%	12%	47%	21%	1%	22%	16%	2%	9%
Energy	78	19%	8%	9%	8%	60%	13%	4%	29%	10%	3%	6%
Retail	78	17%	10%	13%	5%	40%	6%	0%	32%	3%	9%	14%
Construction	73	38%	12%	7%	19%	52%	25%	10%	25%	23%	4%	23%
Education	70	36%	9%	13%	10%	43%	17%	0%	16%	7%	6%	19%
Insurance	69	19%	6%	6%	20%	49%	12%	9%	16%	10%	6%	9%
Technology	65	28%	9%	2%	9%	65%	11%	3%	32%	14%	0%	5%
Transportation and warehousing	60	18%	10%	18%	7%	52%	12%	2%	33%	10%	3%	7%
Religious, charitable, or social services	58	36%	17%	24%	17%	45%	29%	3%	10%	7%	2%	16%
Information	52	15%	10%	10%	0%	62%	10%	2%	27%	6%	0%	10%



How are Frauds Initially Detected

FIG. 13 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?



Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

Passive vs. Proactive

FIG. 15 HOW DOES DETECTION METHOD RELATE TO FRAUD LOSS AND DURATION?



Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

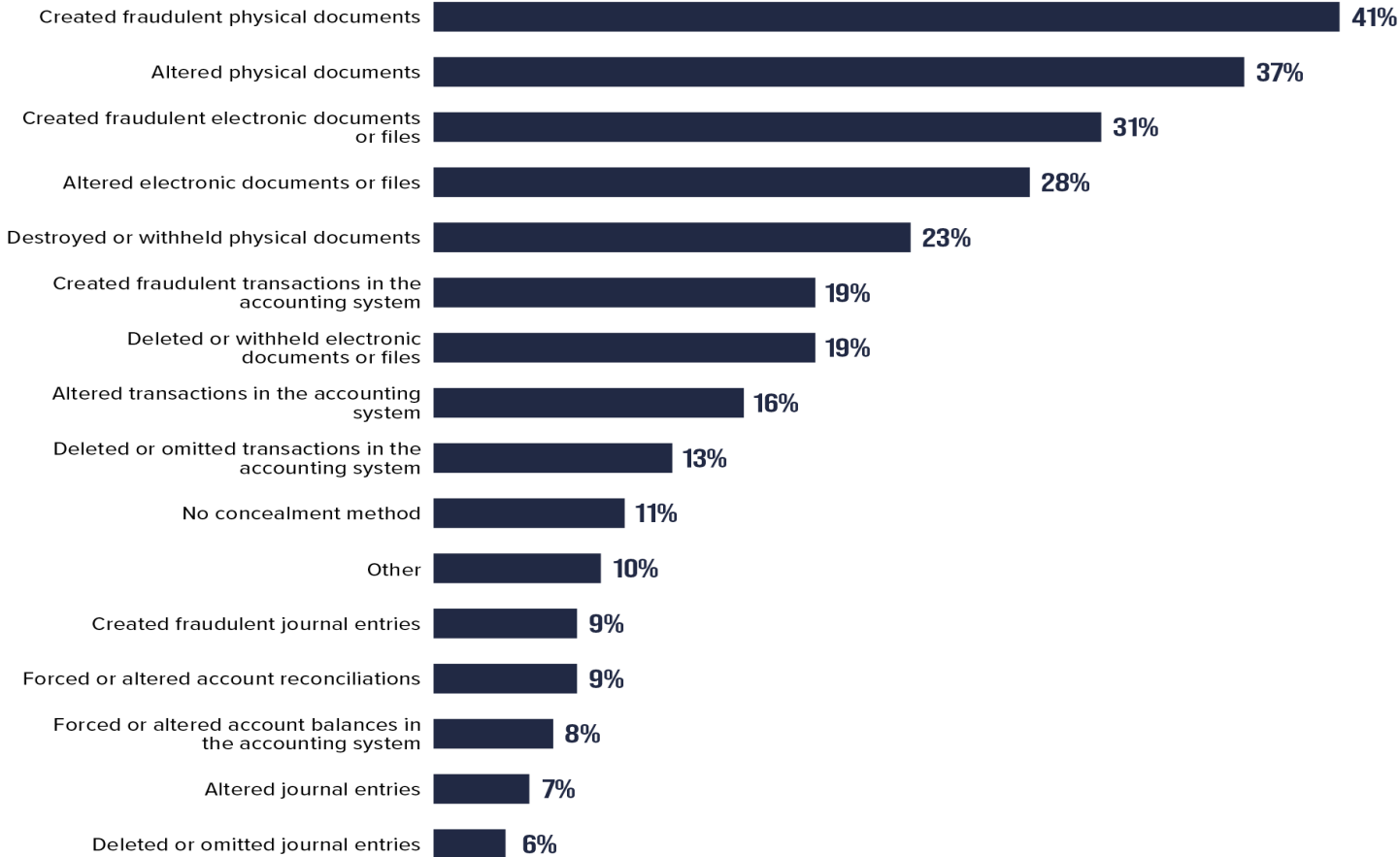
Characteristics to Watch – Financial Services Specific

- Credit problems
- NSF in personal accounts
- Unusual transactions in personal accounts
- Significant new accounts
- Management override of internal controls
- Less experienced employees unknowingly aid
- Second person signs off on transaction based on trust



Concealment Methods

FIG. 10 HOW DO OCCUPATIONAL FRAUDSTERS CONCEAL THEIR SCHEMES?



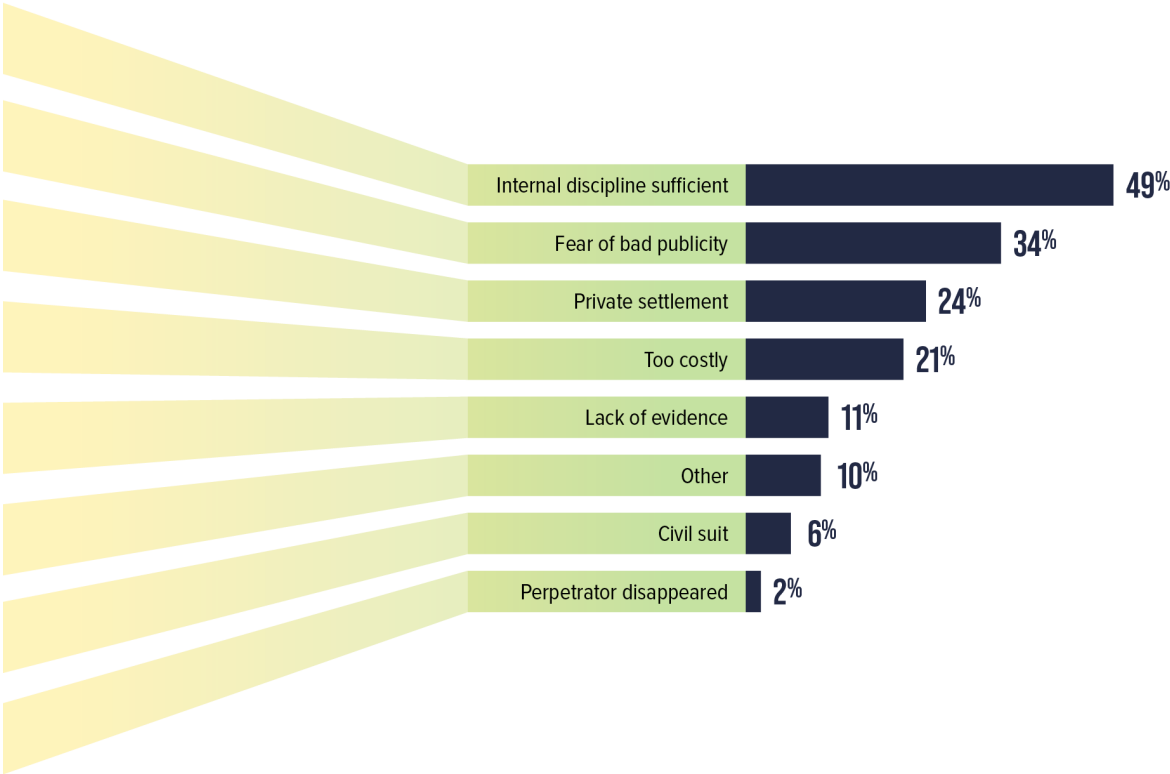
Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

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Law Enforcement Referral

FIG. 59 WHY DO ORGANIZATIONS DECLINE TO REFER CASES TO LAW ENFORCEMENT?



Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

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SAR Trends

Suspicious Activity Reports Surge:
2023 Filings Expected to Set Another
Record – A deeper dive into the data –
Thompson Reuters Institute



2022 Overview

- 3.6 million SARs reported by financial institutions in 2022
 - Avg. of 10,000 per day
 - 18% increase over 2021
 - 22.5% increase 2021 vs. 2020
- Depository institutions and money services businesses filed 85% of all SARs
- More than 14,800 financial institutions shared data with law enforcement

2022 Overview

- Pandemic led to rising SARs over the last few years
 - Check frauds
 - Frauds related to government benefit payments
 - Investment account fraud
- Targeted vulnerable populations
 - Migrant population
 - Elderly

2023 – Another Record Year

- 4.6 million SARs reported by financial institutions in 2023
 - Avg. of 12,600 per day
 - 28% increase over 2022
- Depository institutions filed more than half – approximately 2.5 million
- 1.75 million reports related to fraud
- 1.63 million related to money laundering
- 1.31 million related to structuring

Top 15 Most Common Suspicious Activity Flags

Rank	Suspicious Activity Type	Filings (Overall)	Percentage (Overall)
1	Suspicion concerning the source of funds	2,610,511	9.09%
2	Transaction(s) below CTR threshold	2,606,758	9.08%
3	Transaction with no apparent economic, business, or lawful purpose	2,008,708	7.00%
4	Check	1,870,006	6.51%
5	Transaction out of pattern for customer(s)	1,823,970	6.35%
6	Suspicious EFT/wire transfers	1,586,033	5.52%
7	Suspicious use of multiple transaction locations	1,583,631	5.52%
8	Identity theft	1,286,551	4.48%
9	Credit/Debit card	1,266,345	4.41%
10	Other Suspicious Activities - Other	1,016,967	3.54%
11	Fraud - Other	973,029	3.39%
12	Two or more individuals working together	937,261	3.26%
13	ACH	819,548	2.85%
14	Provided questionable or false documentation	805,334	2.80%
15	Counterfeit Instruments	795,873	2.77%

Why Are We Seeing Increases?

- Not necessarily an increase in problematic activity
- Industry education
- Better tools being implemented at financial institutions
- Better sophistication in AML and anti-fraud programs
- Rapid growth of government programs driven by the pandemic
- “Defensive Filing” to minimize risk

Why Are We Seeing Increases?

- Increase in digital banking
 - Greater customer reach vs. opportunities for fraudsters
- Regulatory pressure and guidance
- Human smuggling related cases growing exponentially
 - 373% increase from 2020 to 2021
 - 173% increase 2021 to 2022
- COVID-19 effect

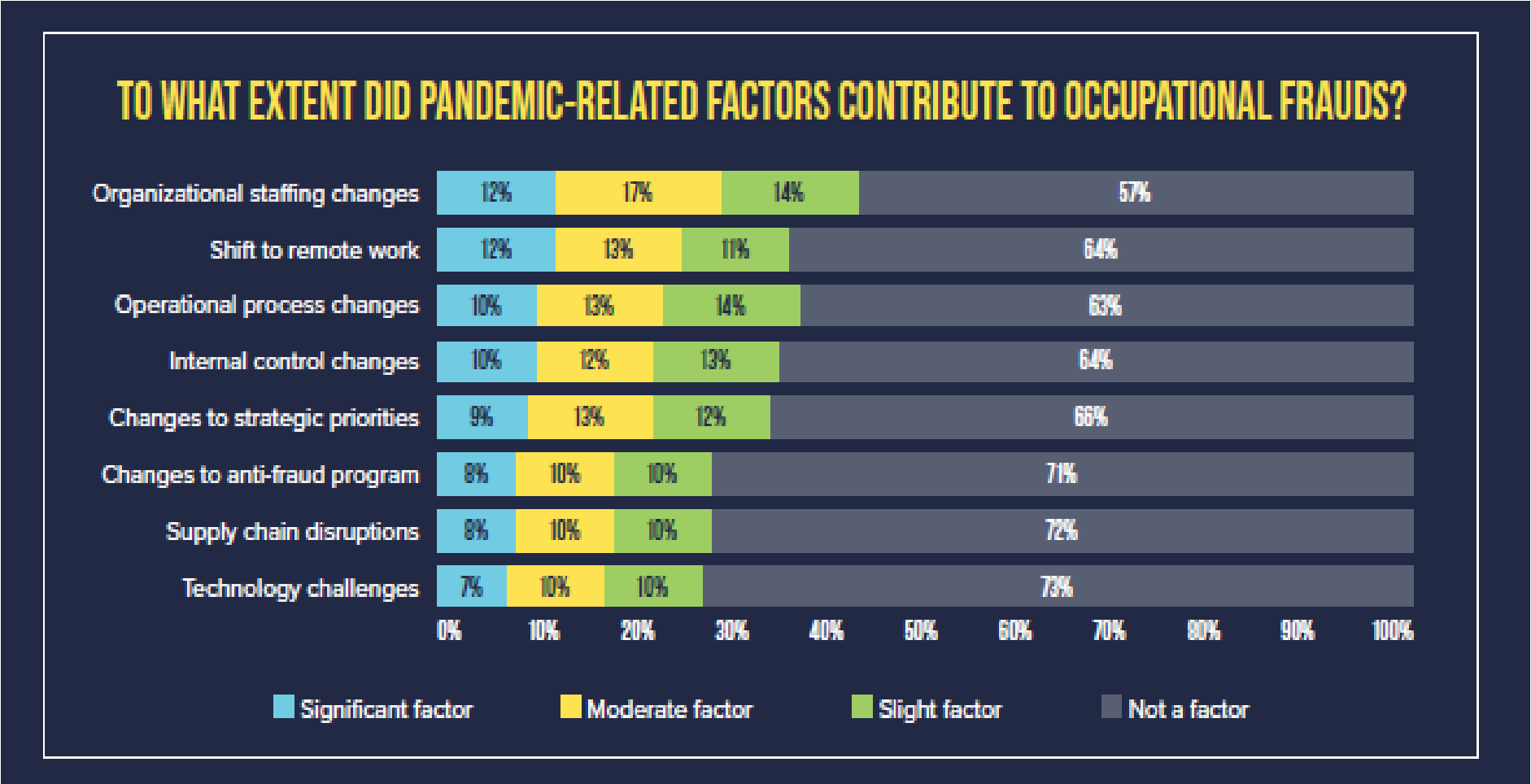
Check Fraud

- SAR's almost doubled in 2022
 - 680,000 check fraud SARs
- Red Flags
 - Large withdrawals via check to new payee
 - Customer complaints
 - Complaints on mailed checks not reaching destination recipients
 - Questionable appearance of check stock
 - Existing customer with limited prior check activity shows sudden increase
 - New sudden check deposits followed by rapid withdrawals
 - Signs of check altering

Pandemic Impact



Pandemic Impact on Occupational Fraud

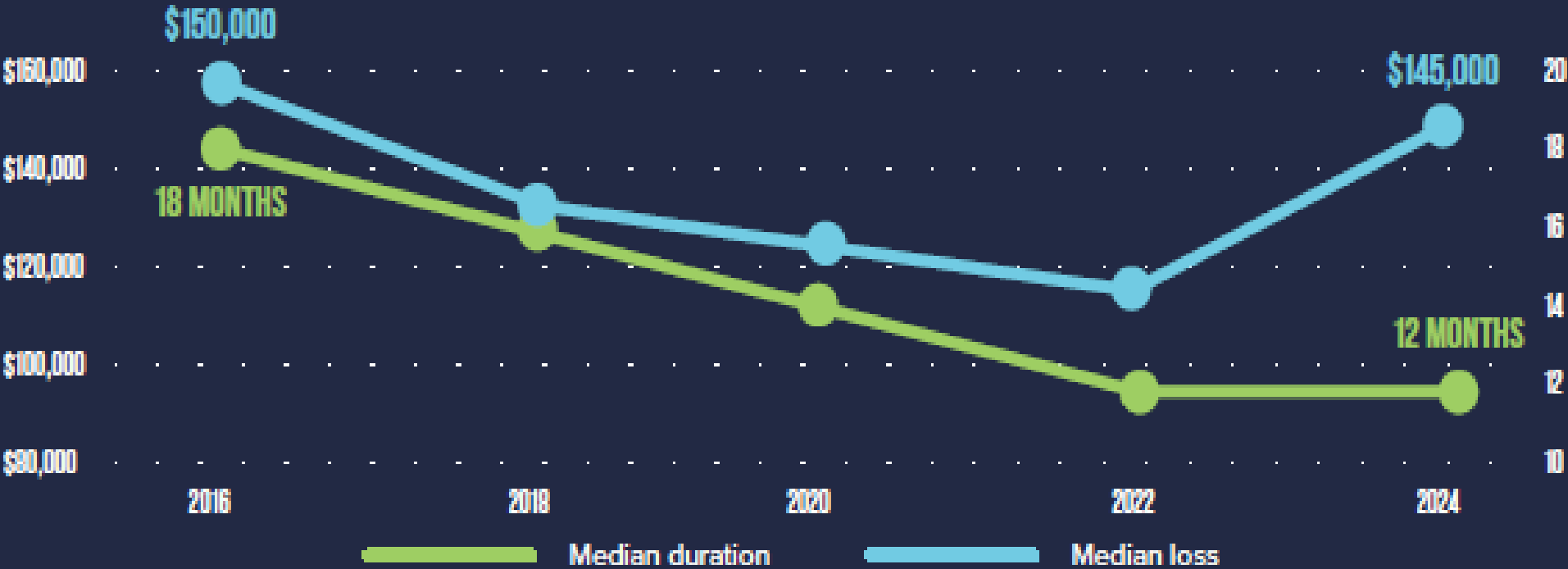


Pandemic Impact on Occupational Fraud

After seeing a decline in fraud losses over several studies, the median loss of frauds that occurred during the pandemic increased notably, even while the time to detection did not change.

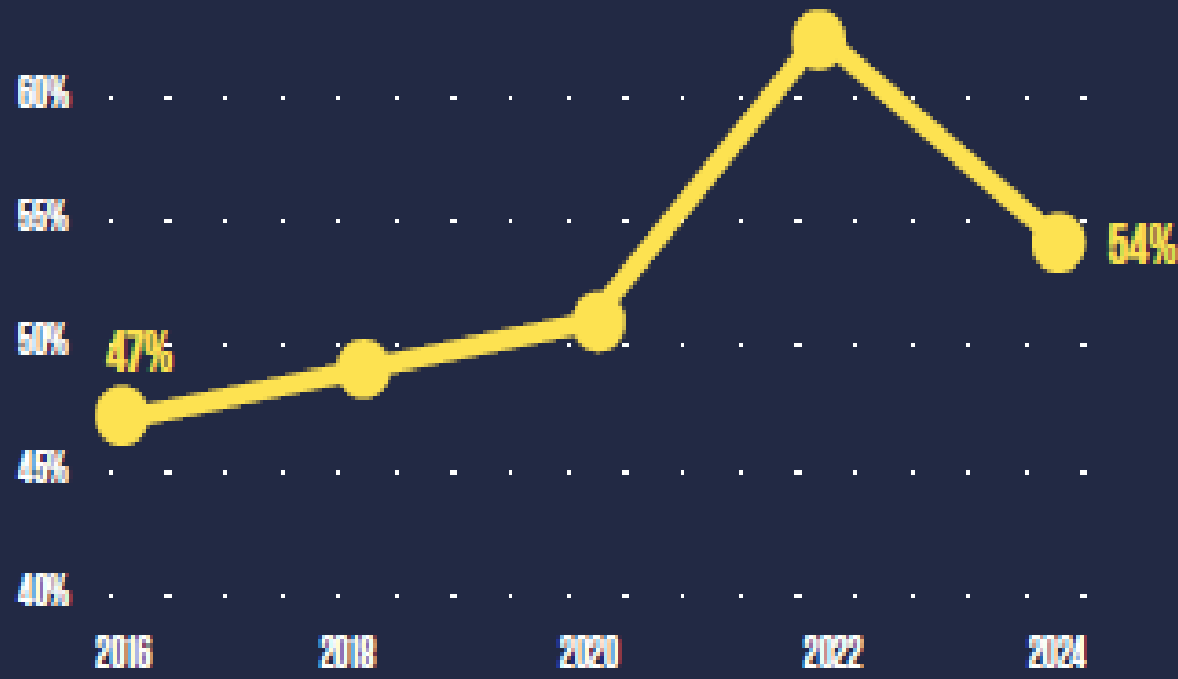


MEDIAN LOSS UP 24%
from 2022–2024



Pandemic Impact on Occupational Fraud

CASES INVOLVING MORE THAN 1 PERPETRATOR



The trend of **INCREASING COLLUSION** among perpetrators **SLIGHTLY REVERSED** during the pandemic.

Source: Association of Certified Fraud Examiners, Occupational Fraud 2024: A Report to the Nations

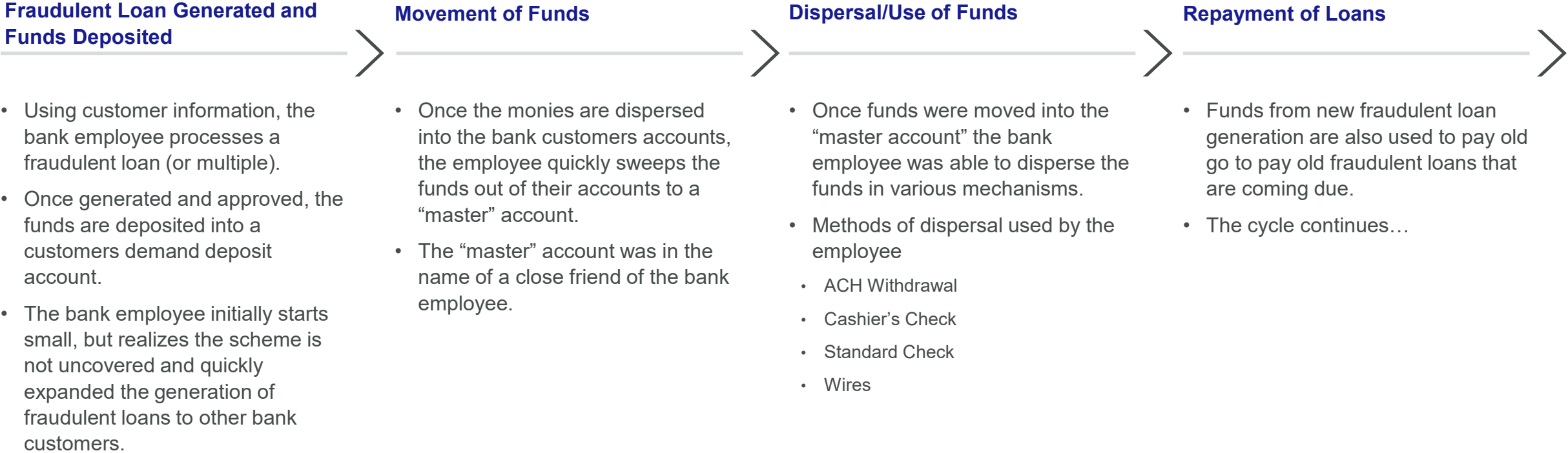
Case Study

Fraudulent Loan Scheme



Case Study: Fraudulent Loan Scheme

Fraudulent Loan Scheme Process



Case Study: Fraudulent Loan Scheme

Fraudulent Loan Generated and Funds Deposited

10/13/2022 Transfer Deposit 283,400.00
Fund Ln XXXXXX LOAN PROCEEDS

10/13/2022 Transfer Deposit 283,400.00
Fund Ln XXXXXX LOAN PROCEEDS

- Two fraudulent loans generated by the bank employee in a customer's name and deposited into the customer's checking account

Movement of Funds

CHECKING/SAVINGS WITHDRAWAL DATE 10-13-22

ACCOUNT NUMBER

SELECTOR 1 1 5

\$ 566800.00

⑆5100⑆000⑆

DEPOSIT

DESCRIPTION CASH

ACCOUNT NUMBER * Sw 927

DATE 10-13-22 928 566800.00

SIGN HERE FOR CASH RECEIVED. DEPOSIT MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

NAME _____

ADDRESS _____

TOTAL FROM OTHER SIDE

LESS CASH RECEIVED

TOTAL DEPOSIT \$ 566800.00

⑆5100⑆0000⑆ 151

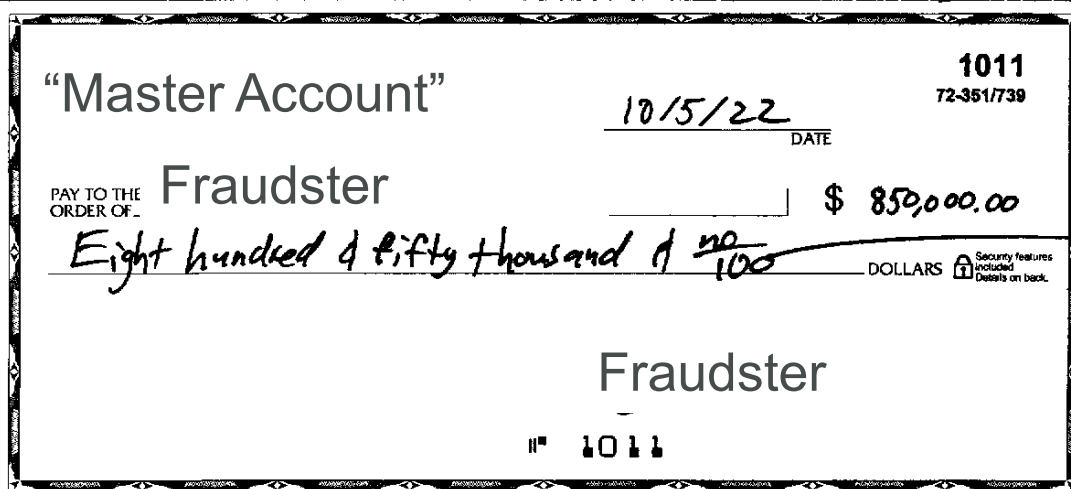
- Funds withdrawn from customer's checking account and deposited into "master" account

Case Study: Fraudulent Loan Scheme

Dispersal/Use of Funds



Repayment of Loans



9/19/2023	283400	Principal Payment
9/20/2023	283400	Principal Payment

- Loans repaid with proceeds from subsequent fraudulent loans taken out in other customers names

- Once deposited in the “Master Account”, funds were withdrawn. In this instance, a check was written and cashed in the account holder’s name for \$850,000. The excess amount over the \$566,800, were sourced from other fraudulent loans processed in other bank customer’s names.