

# FORVIS<sup>TM</sup>

## The Mindset of a Fraudster

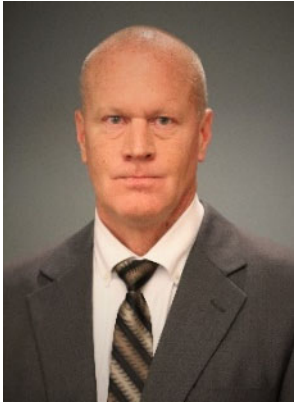
Presented by:  
CVA

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# Presenters



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# MINDSET

Definition:

- The Established Set of Attitudes Held by Someone

# THE MINDSET OF A FRAUDSTER

Can include the fraudsters:

- Ability to Rationalize their Actions
- Level of Personal Integrity

# POLLING QUESTION #1

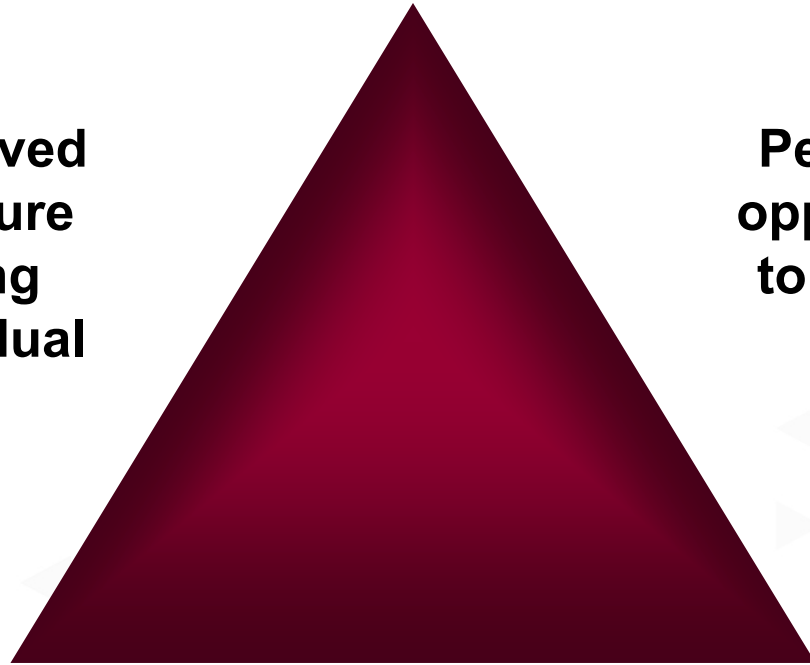
- Do you think there's more opportunity to commit fraud now than in the past?
- A. Yes
- B. No
- C. Not Sure

# The Fraud Triangle

**Perceived  
pressure  
facing  
individual**

**Perceived  
opportunity  
to commit  
fraud**

**Person's Rationalization**



# Gary Foster

2020

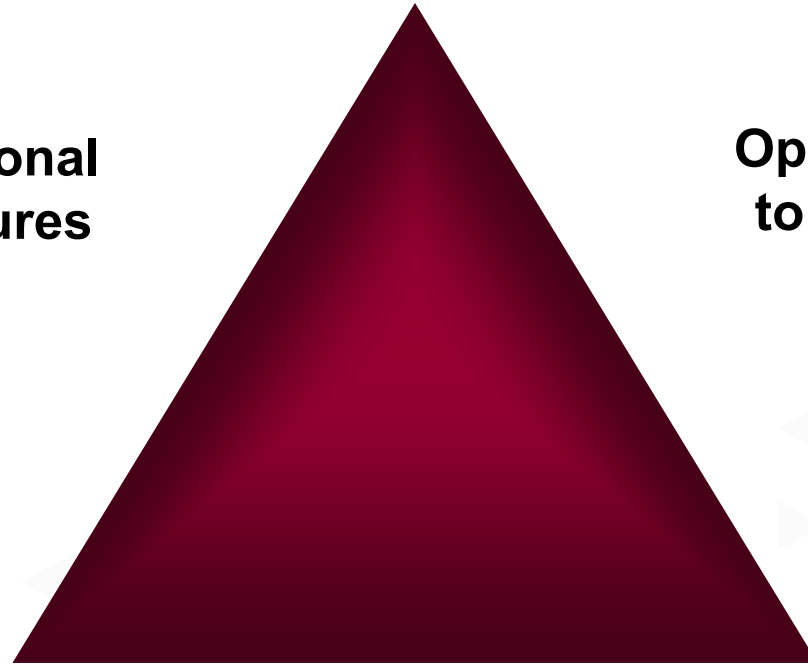
Talks about how  
he rationalized  
his  
embezzlement.

03:11

# The Fraud Scale

**Situational  
Pressures**

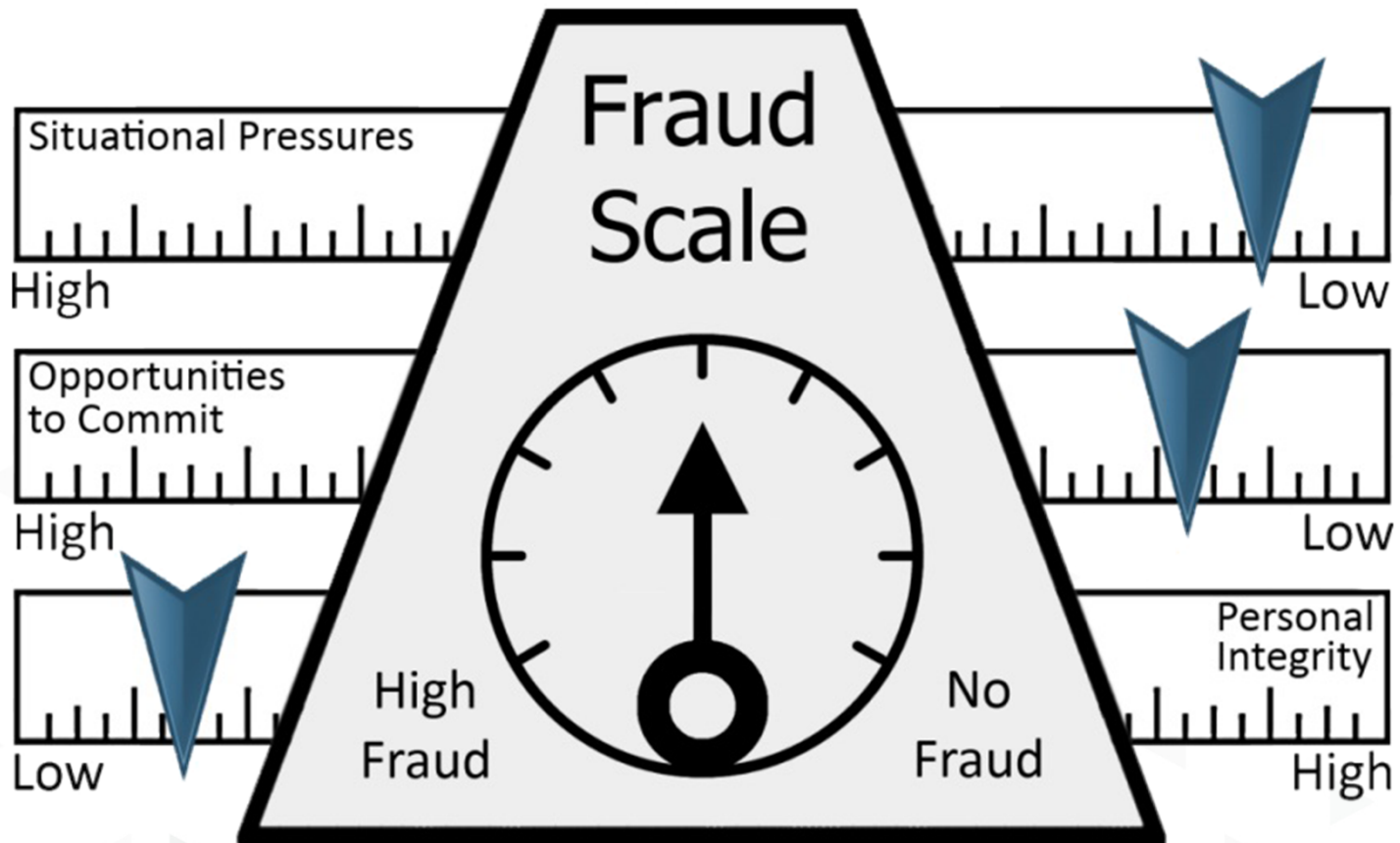
**Opportunity  
to Commit  
Fraud**



**Personal Integrity**



# The Fraud Scale



# RATIONALIZATION vs. INTEGRITY

- RATIONALIZATION is largely unobservable before the fraud occurs.
  - Not much help predicting who will commit white-collar crime.
- INTEGRITY is more observable.
  - By observing a person's decisions and decision-making processes, their commitment to ethical decision making can be assessed.
  - A little more help in predictive analyses.

***“Whoever is careless  
with the truth in small  
matters cannot be  
trusted with important  
matters.”***

**–ALBERT EINSTEIN**

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**THINK  
ABOUT**

**WHERE  
IS YOUR  
“LINE”**

**ETHICAL**

---

**UNETHICAL**

**BEWARE**

**THE  
SLIDE**

**ETHICAL**

**UNETHICAL**

**ILLEGAL  
CRIMINAL**

**PREDATORS  
VS.  
ACCIDENTAL  
FRAUDSTERS**

**THE  
SLIDE**

**ACCIDENTAL  
FRAUDSTERS**

**PREDATORS**

**ILLEGAL  
CRIMINAL**

## POLLING QUESTION #2

- Do you think personal integrity can be a fraud deterrent?
- A. Yes
- B. No
- C. Not sure

# Barry Minkow

2011

Fraudster's  
Perspective

Ponzi scheme,  
collapsed in 1987.

Cost investors /  
lenders \$100M.

03:47





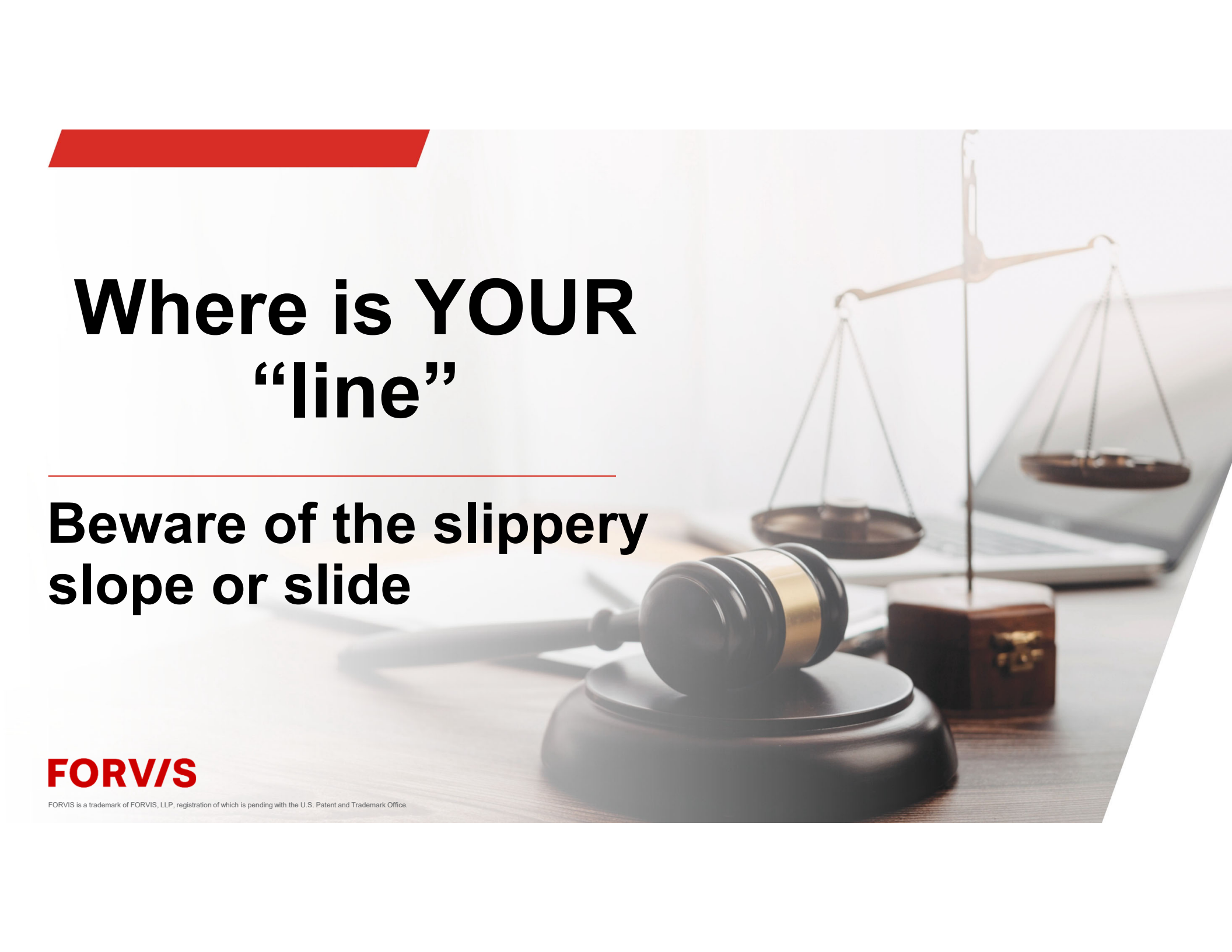
# Where is YOUR “line”

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**Beware of the slippery  
slope or slide**

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# Dichotomy of Dishonesty

Article by Dick Carozza,  
Fraud Magazine, March/April  
2021

Interview of Dan Ariely,  
Professor of Psychology and  
Behavioral Economics at  
Duke University

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“All of us want to look in the mirror and feel good about ourselves. But secretly we also want to benefit some from our dishonesty.”

# Dichotomy of Dishonesty

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Professor of Psychology and  
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Duke University

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“We’re all dishonest; we all cheat; we  
all rationalize.

It’s just the degree, and how  
comfortable we feel about it.”

# Dichotomy of Dishonesty

Article by Dick Carozza,  
Fraud Magazine, March/April  
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## Robin Hood Syndrome of Cheating

“When people are cheating for a favorite charity, they cheat more than they cheat for themselves.” “When people cheat for a group of people that they like, they cheat more. We can often justify cheating to a higher degree.”

# Robert Courtney

In 2002, after initially being caught diluting several doses of chemotherapy drugs, he pleaded guilty to intentionally diluting 98,000 prescriptions involving multiple types of drugs, which were given to 4,200 patients, and was sentenced to 30 years in federal prison.



Pharmacist



Inmate

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# Profile of Fraud Perpetrator

- Operations, Accounting, Executive/Upper Management, Sales
- Male 73% / Female 27%                      Male \$125k / Female \$100k
- Age 31-45 54% - \$100k                      Over 60 3% - \$800k
- University Degree 65%
- Never charged or convicted 87% (re criminal background)
- No prior employment-related disciplinary actions 83%

# Behavioral Red Flags of Fraud Perpetrators

- Living beyond means
- Financial difficulties
- Unusually close w/ vendor/customer
- Control issues, won't share duties
- Irritability, suspiciousness, defensiveness
- Bullying or intimidation
- Social isolation
- Divorce/family problems
- “Wheeler-dealer” attitude
- Organization pressure
- Addiction problems
- Complained about pay
- Refusal to take vacations
- No behavioral red flags – 15%



# POLLING QUESTION #3

- Do you have monitoring reports to help identify potential fraud?
- A. Yes
- B. No
- C. Not sure

# Which One Looks Suspicious?



# Which One Looks Suspicious?



**\$3 million**



**\$4.6 million**



**\$1.0 million**



**\$31 million**



**\$900,000**



**\$1.1 million**

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# Traits of Fraudsters

- Wheeler-Dealer attitude
- Domineering/Controlling
- Strong desire for personal gain
- Close relationship w/ customers/vendors
- “Too good to be true” work performance
- Excessive OT / no leave
- Outwardly appears trustworthy

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# Traits of Fraudsters

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# Traits of Good Business-people

- Persuasiveness
- Leader
- Goal oriented
- Ability to network
- “Hard-working”

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***“Think how hard physics would be if particles could think.”***

**– Murray Gell-Mann**

# The Mindset of Nathan Mueller

2015

Embezzled \$8.5  
Million from ING.

Four-year Period.

02:30

# The Mindset of James Scalzo

2017

Originated &  
approved multiple  
fraudulent loans –  
more than \$1.4  
million.

03:25



# The Mindsets of Andrea Baxendale and Gary Foster

Confessions of  
Convicted  
Fraudsters

05:32

# Back to Basics

Perceived  
pressure  
facing  
individual

Perceived  
opportunity  
to commit  
fraud

Exacerbated in  
economic downturn

Person's rationalization  
or integrity

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# SUMMARY

- **Rationalization**
  - Largely unobservable before the fraud occurs and does little to advance the concept of predicting who will commit white-collar crime.
- **Integrity**
  - More observable and, thus, should play a larger role in predictive analysis.
  - By observing both a person's decisions and decision-making processes – their commitment to ethical decision making can be assessed.

# SUMMARY

- **Pressures**
  - Everyone experiences different pressures, and everyone relieves or copes with those pressures in different ways.
  - People think independently and react differently.
- **Profiling**
  - Attempts at profiling a white-collar criminal are interesting, but there are too many factors and variables to reliably do so.
  - In most cases, fraudsters simply end up breaking the law because they keep stretching the limits of permissible activity – a statement that supports the importance of deterrence.

# SUMMARY



# SUMMARY

- **Prevention and Deterrence**
  - Start with ethics – when ethics fail, corruption and fraud creeps in. Invest in ethics training and hiring ethical people.
- **Minimal Controls for Small Businesses**
  - Segregation of duties.
  - Perform independent reconciliations.
  - Set up a fraud hotline.

# INTEGRAREPORT

## FRAUD & ETHICS HOTLINE

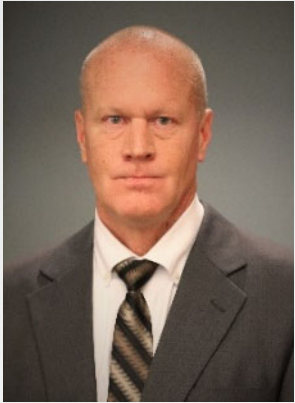
- Personalized website
- Custom toll-free phone number with a customized script
- Real-time, quarterly dashboards
- Online case management system
- Ability to anonymously communicate with the reporter
- Hotline monitored by **FORVIS** fraud professionals
- Live implementation and setup training
- Consultation and customized templates for marketing materials
- Industry specific fraud awareness training via USB drive or access to online webinar for unlimited viewing within subscription year

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# FORVIS

**24 HOURS A DAY. 7 DAYS A WEEK. 365 DAYS A YEAR.**

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# Thank you!

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