

# **FRAUD**

## **Deterrence and Prevention Skills**

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**JOHN J. HALL**

## John J. Hall, CPA



John J. Hall, CPA is the founder and President of Hall Consulting, Inc., and the author of the award-winning book ***“Do What You Can! Simple Steps–Extraordinary Results”***. He has been a business consultant, results coach and speaker for most of his career.

Through live skills training programs, conference keynote presentations, business and personal results coaching, and business consulting engagements, John helps program participants and client team members:

- Identify and improve areas of exposure to business risk, wrongdoing, and fraud
- Improve organizational and personal performance
- Enhance the effectiveness of business processes and individual behavior
- Improve interpersonal and communications skills

### Speaking, training, coaching and consulting areas include:

- Fraud Risk Management: prevention, deterrence, early detection and effective incident response
- Business keynote and conference presentations
- Communication and interpersonal behavior skills programs, including:
  - ✓ Establishing business rapport and trust
  - ✓ Effective interviewing and listening
  - ✓ Speaking and presenting
  - ✓ Selling ideas and influencing others to take action
  - ✓ Leadership, collaboration and influence
  - ✓ Consulting skills for professionals
- Intensive One-to-One and small group performance and results coaching
- Board and senior management anti-fraud consulting
- Audits of costs incurred in large construction projects and other contractor services

Mr. Hall has over 40 years of experience as a professional speaker, consultant, corporate executive, and business owner. In addition to operating his speaking, training and business consulting firm since 1990, he has worked in senior leadership positions in large corporations and international public accounting and consulting firms.

John is a Certified Public Accountant (Pennsylvania) and Certified Board Advisor. He is an active member of the National Speakers Association, the American Institute of CPAs, and the Institute of Internal Auditors.

**Meet John at [www.JohnHallSpeaker.com](http://www.JohnHallSpeaker.com)**

## **KEY CONCEPTS**

1. Working definition of “fraud”:

***An intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.***

- a) Clandestine
- b) Violates the perpetrator’s fiduciary duties to the victim organization
- c) Committed for the purpose of direct or indirect financial benefit
- d) Costs the organization assets, revenue or reserves

2. Fraud risks fall into four broad areas:

- a) Misappropriation (tangible and intangible assets)
- b) Manipulated results reporting (financial and other measures)
- c) Corruption (or shadow deals)
- d) Technology (including cyber-crime)

3. Brainstorming fraud risks is based on the “Three C’s of Fraud”:

- a) Commission
- b) Conversion
- c) Concealment

4. Fraud is committed by ‘thieves’. Thieves lie.

5. Fight fraud is a campaign – not an event.

6. Precision and clarity in our thinking, planning and actions are essential.

7. Who commits fraud – and why

**Dishonest** \_\_\_\_\_ **Honest**

## **FRAUD RISK MANAGEMENT FRAMEWORK**

### **1. FRAUD DETERRENCE AND PREVENTION**

- 1) Visible and vocal leadership
- 2) Policies on Fraud Responsibilities
- 3) Meaningful fraud risk brainstorming
- 4) Anti-fraud controls
- 5) Anti-fraud behaviors
- 6) Anti-fraud “*How To*” skills training

### **2. EARLY FRAUD DETECTION**

- 1) Clear statement of detection responsibilities and accountability
- 2) Detection-based internal controls and behaviors
- 3) Detection-based audit steps
- 4) Trusted hotlines
- 5) Other tip sources
- 6) Monitoring for red flags and other fraud indicators
- 7) Special focus on third-party relationships

### **3. EFFECTIVE FRAUD HANDLING**

- 1) Managers and employees know what happens when the alarm sounds
- 2) Investigation
- 3) Loss recovery (including insurance claims and litigation)
- 4) Control weaknesses are identified and corrected
- 5) Coordination with law enforcement and prosecutors
- 6) Publicity
- 7) Human resources
- 8) Employee awareness and morale

***Organizations and their leaders must be prepared  
to address fraud risks at all three levels.***

## **ANTI-FRAUD EXPECTATIONS**

The list below should give you suggestions of topics or themes to include in leading a discussion about fraud expectations with your staff or team. Don't just read off the list – instead, pick five or six items that most relate to your own beliefs and tailor comments to your unique environment and culture. Be sure to:

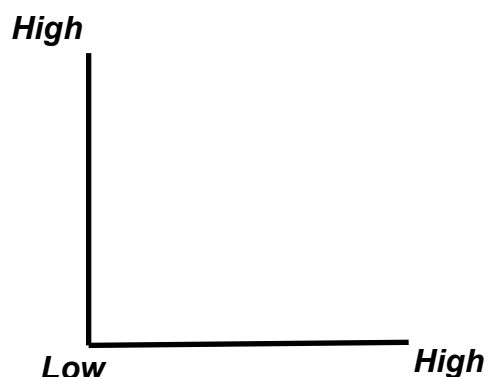
1. Frame the discussion to the questions those listening to you will likely have
2. Stress the importance of a balanced message – tie your request for help to the listeners normal pride in their work
3. Be explicit. Don't beat around the bush. Tell them what you expect and what you need them to do as a result.
4. Use a positive tone. Make it a 'call to arms' that starts with, "I need your help to fight this problem."
5. Include examples of what could go wrong in your area, including what it would look like in reports, variances, complaints and other indicators of a problem

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It is expected that every manager and employee will:

1. Know the fraud related exposures in their areas of responsibility, for example...
2. Know what it would look like if it happened. For example...
3. Use best-faith efforts to minimize the chance of fraud on their watch. Examples include...
4. Make sure the transactions they personally approve are not fraudulent. Here's an example of what I mean...
5. Personally monitor for those frauds that only they are in a position to detect. For example...
6. Question and challenge the unusual. Here's an example of what I mean...
7. Set an example of honest and ethical behavior by personal example and by not tolerating dishonest or unethical behavior in others. Here are a few examples of how to do that...
8. Strive to prevent fraud by minimizing the exposures and reducing the opportunities and temptation. For example...
9. Immediately refer suspected wrongdoing to Internal Audit or Security for investigation. Here's an example of what I mean...

## **THE EFFECTIVENESS OF CONTROLS**



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## **10 REASONS ANTI-FRAUD CONTROLS FAIL**

- \_\_\_\_\_ 1. Blind trust
  - \_\_\_\_\_ 2. Willful blindness
  - \_\_\_\_\_ 3. Not having information needed to assure transactions are proper
  - \_\_\_\_\_ 4. Not questioning the strange, odd and curious
  - \_\_\_\_\_ 5. Situational incompetence
  - \_\_\_\_\_ 6. Not enough time to do the control procedures
  - \_\_\_\_\_ 7. Not enforcing documentation requirements
  - \_\_\_\_\_ 8. Intentional override
  - \_\_\_\_\_ 9. Acceptance of the situation (fear, immunity, no longer engaged)
  - \_\_\_\_\_ 10. Thieves fool us
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## **ANTI-FRAUD BEHAVIORS**

Managers and employees should look for fraud symptoms in information they see each day. All should be aware of and monitor for fraud indicators in documents they handle and approve, in operations and exception reports, and in behavior.

### **Anti-Fraud Behavior Foundation:**

1. Competence
2. Integrity
3. Interest
4. Time
5. Real oversight and analysis
6. Management support and coaching

### **Four Daily Anti-Fraud Controls Behaviors:**

1. Look
2. Ask
3. Doubt
4. Resolve



## **BEFORE APPROVING INVOICES FROM VENDORS AND CONTRACTORS**

### **“Good Questions to Ask!”**

Each day, managers review and approve thousands of invoices, contractor statements, time sheets, expense reimbursements, purchasing card details, and other documents that cause cash to be disbursed. All too often, that approval becomes a “rubber stamp” with little active thought about what the approval step really means. “Signatures without thought” increase the likelihood of mistakes and make it easy for those who are trying to fool us.

Managers are encouraged to answer these basic questions before approving invoices and other payment documents. All address the general question of:

### **“How do I know?”**

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1. How well do I know this vendor or contractor? Do I have first hand knowledge that they even exist!
2. Do I know that they actually provided the goods or services identified in the invoice or other billing statement?
3. Do I know that they are using the correct amounts for price (including unit prices used), sales tax, freight, and other variables that make up the amount invoiced?
4. On what basis do I know that the prices are reasonable in the first place? What standard have I used in determining that the price charged is fair?
5. How do I know that the quantities make sense? On what basis have we agreed to purchase the stated quantities?
6. How do I know that the invoice and other documents are mathematically correct?
7. Do I know that this invoice has not already been paid?



## **EXAMPLE RED FLAGS, INDICATORS AND SYMPTOMS**

1. Missing, inadequate or altered documents
2. Business expenses submitted for restaurants near an employee's home, or on weekends or holidays when no legitimate work was scheduled
3. Meal descriptions of 'business meal' without further description
4. Even dollar 'meals' – that may indicate actually refilling gift cards (Starbucks)
5. Duplicate charges for meals, transportation and accommodations
6. Counts of supplies, equipment or other assets show a pattern of missing items
7. Unusually high labor hours or rates – especially compared to a baseline norm
8. Unusual quantity or type of supplies, tools, or other small-dollar items
9. Change in banking or other payment information for existing suppliers and contractors (especially for low-frequency or inactive/dormant entities)
10. Charges from unknown suppliers found on management reports
11. Unexpected charges in excess of budgeted or otherwise planned amounts
12. Goods or services purchased in excess of needs or normal volumes
13. Amounts of invoices fall just below the threshold for review
14. Employee handles all matters related to a vendor even though it might be outside or below his or her normal duties
15. Vendors with an unusual business volume for no apparent reason
16. 'Customer', employee and third-party complaints (including credit card charges)
17. Adjustments that override original transactions
18. Cash over or under
19. Common names or addresses for refunds or credits (including bank accounts)
20. Significant unexplained items on reconciliations

**BRAINSTORMING YOUR RISKS AND EXPOSURES**  
**(Remember the 3 C's: Commit, Convert, Conceal)**

1. Business Area: \_\_\_\_\_

2. Fraud Risk Description (WCGW?):

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**COMMIT**

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**CONVERT**

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**CONCEAL**

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