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THE WALL STREET JOURNAL

May 25, 1999

Ex-Cons Find Peace and Paycheck On the Burgeoning Lecture Circuit

By JOSHUA HARRIS PRAGER

Staff Reporter of THE WALL STREET JOURNAL

Webster Hubbell hasn't even taken his seat on the speakers' dais, and the 325 accountants in the audience are already snickering.

The former presidential confidant and Whitewater figure has come to the Cobb Galleria outside Atlanta to "educate" a convention of certified public accountants in how to detect financial impropriety. Mr. Hubbell is currently under indictment for evading the collection of tax and for lying to federal investigators (he has pleaded not guilty).

In 1994, Mr. Hubbell pleaded guilty to mail fraud and tax evasion while a partner at the Rose Law Firm in Little Rock, Ark. He served 18 months of a 21-month sentence and is free on parole. "You might as well learn from the best," Audrey McCrary, a well-dressed CPA, says to the colleague seated beside her.

The master of ceremonies, Gary Zeune, plays to the crowd as he introduces Mr. Hubbell. "Webb," he crows, "why the hell did you do this?"



Hubbell

So starts another gig for the Pros & the Cons, a speaking troupe of white-collar criminals now in its second year. The group is the brainchild of Mr. Zeune (rhymes with "tiny"), a 50-year-old CPA from Columbus, Ohio. Mr. Hubbell is his prized recruit.

Mr. Zeune's speakers are right at home on the modern corporate-lecture circuit, which is starting to resemble daytime talk-show circles. Everest climbers, sports coaches, even a former hostage, whose inspirational routine is based on being shot in the head -- all make regular appearances at lunch-hour talks and corporate retreats.

Over the past decade, the number of speakers on the lecture circuit has at least quadrupled, according to the National Speakers Association, a Tempe, Ariz., group that promotes and trains its members, whose median income from speaking in 1997 was \$73,000, more than double the 1990 figure of \$30,000.

Mr. Zeune's speakers require some special handling. Forget about panel discussions: the federal court system's probation division requires **ex-cons** to obtain special dispensation to knowingly have contact with one another. Before booking one of Mr. Zeune's speakers, CPA societies commonly check first with the FBI to

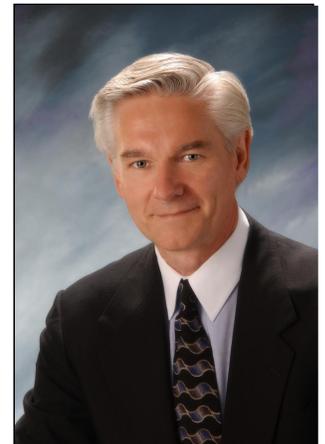
make sure that they are allowed to lecture under the terms of their parole and that their claims to

being **ex-cons** are, in fact, legitimate. "Face it. Accountants are damn conservative," says Mr. Zeune. "I'm sort of surprised they do this at all."

Some doubt the effectiveness of the Pros & the Cons as a fraud deterrent. "I think the group is fairly entertaining, but I'm not sure it helps us," says David Nesbitt, an FBI agent in Ventura, Calif., who oversaw fraud investigations in Los Angeles from 1990 to 1998.

Public speaking does seem to benefit the speakers.

"Guys in Gary's group are dealing better than other white-collar criminals," says Mark Morze, one of Mr. Zeune's speakers, who served more than four years in jail for his role in ZZZZ Best



Gary Zeune, Founder
The Pros & The Cons



Mark Morze

Co., the carpet-cleaning enterprise that bilked banks and investors for some \$100 million back in the 1980s. "Guys who are in denial pay the price forever," Mr. Morze says.

"It's kind of like an alcoholic talking about what happened to them when they started drinking," Mr. Hubbell says. "There's something about confession."

And then there's the paycheck. "There's not too many people who want to hire 50-something-year-old ex-convicts," says Nicholas Wallace, another one of Mr. Zeune's speakers, who spent almost seven years in jail for his role in a \$350 million fraud at ESM Government Securities Inc., a Fort Lauderdale, Fla., brokerage house that defrauded Ohio's state banking commission in the 1980s. When Mr. Wallace went to prison in 1987, he had \$1.8 million. When he got out, after legal fees and a divorce, he had \$800. Mr. Hubbell says that he owes \$3 million in legal fees.

Mr. Zeune grew up the eldest of four children on a dairy farm and became a CPA in 1973. He worked a number of jobs until 1988, when he found his niche behind the podium, lecturing accountants on financial statements and other bean-counting basics.

In 1994, Mr. Zeune added a new topic to his repertoire: preventing fraud. To spice it up, he looked for an **ex-con** to appear with him. He found 30-year-old Barry Minkow, who had founded ZZZZ Best at age 16 and was then serving a 7 1/2-year prison sentence for stealing \$26 million. Mr. Minkow got permission from his parole officer and took the job.

Suddenly, sleep-inducing lectures on the mechanics of fraud came alive. "I was the steak, Barry was the sizzle," says Mr. Zeune. Indeed, the very attributes that enabled Mr. Minkow to hoodwink sophisticated bankers and private investors -- charm, aplomb, ingenuity -- served him well as a speaker. Mr. Zeune, meanwhile, wrote a book, "The CEO's Complete Guide to Committing Fraud."

When Mr. Minkow decided to give up lecturing and become an evangelical Protestant minister, Mr. Zeune asked ZZZZ Best's Mr. Morze to come aboard -- without ever having heard him speak: "I said, 'Gee whiz. He stole \$100 million. How bad [a speaker] can he be?'"

Mr. Zeune, who had come to know about 40 FBI agents through his fraud lectures, began to ask them to recommend other newly released white-collar criminals. Soon, he was paring back his own speaking schedule in order to promote his **ex-cons**.

Snagging Mr. Hubbell was a coup. Last summer, during one of Mr. Zeune's routine canvasses of the **ex-con** landscape for new talent, he came across the National Center on Institutions and Alternatives, an Alexandria, Va., research center on criminal justice. Mr. Hubbell was working there part-time as a senior research fellow soon after his release in 1996 from federal prison in Cumberland, Md. The two linked up.

Mr. Hubbell's Atlanta appearance is only his third for Mr. Zeune. Earlier, he had appeared nervous while waiting for it to begin, his fingers fidgeting with a pink Sweet 'n Low wrapper he'd just emptied into his second cup of coffee. Now, with Mr. Zeune's blunt introduction hanging in the air, the audience waits for an answer.

Mr. Hubbell offers a brief description of how the effects of fraud can snowball. Soon, his self-effacing manner begins to win over the crowd. "The last time I was in Atlanta," he says in his soft Southern drawl, "I was under suicide watch." (He'd been in Atlanta as a prisoner in transit, and his guards were worried about his safety.)

He describes the despair of confessing his crimes to his children and tells of a corporate CEO he met in prison who is now busing tables at a Mexican restaurant. Finally, he explains how he executed fraud: "I was hiding my payments for personal expenses in the bill."

His advice on how to identify red flags seems to find its mark. "How often do I really pay attention to someone's lifestyle?" wonders Barbara Jesup, director of internal audit at AFC Enterprises, an Atlanta restaurant company.

The speech concluded, Mr. Zeune is all smiles. Mr. Hubbell was less amused. "There's that shame factor that's hard to overcome," he says.

NOTE Photos of Hubbell and Morze inserted by Mr. Zeune.



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Using 35 years of experience in auditing, corporate finance, and investment banking, Gary D. Zeune, CPA, provides CPAs, attorneys and executives with hands-on experience in fraud and corporate strategy performance improvement. Mr. Zeune instructs courses for:

- ❑ FBI National Training Academy
- ❑ Office of the U.S. Attorney
- ❑ The SEC Institute
- ❑ National Association of Securities Dealers
- ❑ North American Securities Administrators Association
- ❑ American Society for Industrial Security
- ❑ Over 35 state CPA societies and bar associations
- ❑ American Institute of CPAs
- ❑ American Management Association
- ❑ Institute of Management Accountants
- ❑ Entrepreneurship Institute
- ❑ Treasury Management Association
- ❑ Private classes for numerous companies and accounting firms.

Mr. Zeune has instructed Strategy Formulation and Implementation in the Executive MBA Program and Accounting and Honors Finance at The Ohio State University. He is also a member of the Education Executive Council and is past chairman of the Education Marketing and Public Relations Committees of The Ohio Society of CPAs. His other memberships include: the American Institute of CPAs, and the Regulation of Public Offerings Committee of the Ohio Division of Securities.

Prior to forming his consulting practice in 1986, Mr. Zeune was an Assistant Vice President of Corporate Finance at The Ohio Company, a Columbus, Ohio investment banking firm. He also spent more than five years in Treasury and Finance at Wendy's International, where he was responsible for mergers and acquisitions, financial and SEC reporting, and corporate finance. He was on the audit staff of Ernst & Ernst from 1973 to 1977; and taught accounting at Ohio University from 1970 to 1973, where he received his bachelors in mathematics and masters in accounting, with honors.

ARTICLES AND BOOKS

Mr. Zeune is also widely published. He has published more than 40 professional articles and is the author of *The CEO's Complete Guide to Committing Fraud* and *Outside the Box Performance*. He has been a member of the Editorial Advisory Boards of the *Journal of Working Capital Management* and *The Ohio CPA Journal*.

For Deloitte & Touche, he authored *Financing Business Growth* and has completed the first draft of *The Complete Guide to Buying or Selling a Closely Held Business*, two books in the firm's Entrepreneurial Series. He has authored chapters for two books published by Warren Gorham Lamont, the world's largest financial publisher: *Accessing the Capital Markets* and *Options for Raising Capital*.

WHITE COLLAR CRIMINALS

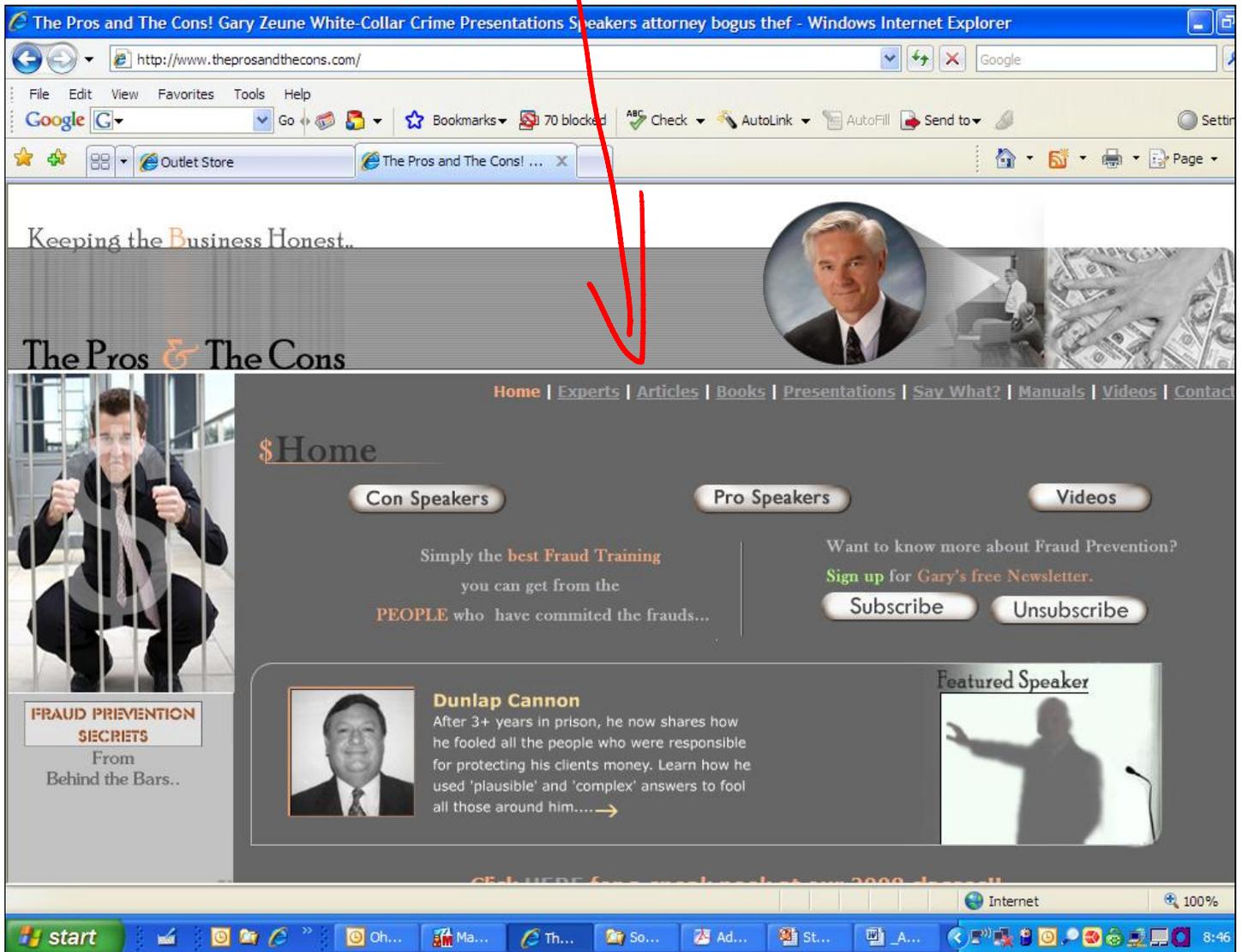
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- ❑ Fred Shapiro defrauded nearly every major financial institution in the City of Philadelphia to the tune of \$8.6M. He is a former attorney, accountant, educator and inmate. Fred worked undercover with the U.S. attorney's office and the FBI in a drug and money laundering operation in an effort to minimize his sentence.
- ❑ Nick Wallace committed a \$350 million fraud as the President of ESM Government Securities resulting in the collapse of the Ohio Saving & Loan Guarantee Fund, and the bankruptcy of 69 Ohio S&Ls
- ❑ Dunlap Cannon was the largest real estate closing attorney in Memphis. He went to prison for 32 months for stealing \$5 million from his clients.
- ❑ Suffering from medical expenses and family deaths, bookkeeper Teri Lynn Norwood stole \$18,000, promising to pay it back. She ran out of time.

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Legal Audits: Does Your Borrower Need A Checkup? - Schottenstein, Zox & Dunn.

An Ex-Con Tells How to Avoid Being Conned. - By Fred Shapiro, in White-Collar Crime Fighter. December, 2004.

Does your compensation system encourage illegal activity? - By Gary D. Zeune, CPA, Published in White Color Crime Fighter in November 2004

Speaker explains how corporate con men get away with it - By Jim Phillips [Athens NEWS Senior Writer] in The Athens News in October 2004

How to Foster Fraud : Forget Ethics - By Gary D. Zeune in White Color Crime Fighter in August 2004

Your Auditors Can Stop Fraud , If they know what to look for - By Stephen Pedneault published in White Color Crime Fighter in August 2004

After Serving Time, Executives Now Serve Up Advice - by CHRISTOPHER S. STEWART in The New York Times

Local CPA, ex-cons attempt to spread word that crime doesn't pay - by SEAN CASEY [Daily Reporter Staff Writer] in Central Ohio Source " The Daily Reporter"

The costs of not securing personally identifiable Data - By Benjamin Wright "The Information Systems Audit and Control Assn." Site : www.isaca.org

Ex-Cons find peace and paycheck on the Burgeoning lecture circuit - By Joshua Harris Prager published in Wall Street Journal May 25th, 2004

Felons become educators for Business - By Mitch Moxley [Financial Post] Published in National Post July 17, 2004

A new regard for ethics on the job - By MEREDITH COHN [SUN STAFF] Originally Published JULY 9, 2004

The pros of preventing cons - White-collar criminals help companies avoid fraud in their midst By Chiree McCain, For Business First - June 25, 2004

Are You Teaching Your Employees to Steal? - By Founder Gary D. Zeune, CPA in Strategic Finance

When it's one of your own a first-person account of Fraud Inside A Bank - by ex-con Dave London in RMA Journal

FRAUD HAPPENS : How an honest employee crossed the line - by Teri Lyn Norwood Published in White - Collar Crime Fighter Magazine , November 2003

Internal theft can destroy years of small business owner's work - by Jane Applegate

Fraud and Theft Start Small - by Founder Gary Zeune in NJ CPA Society Journal

How to Predict When People Will Embezzle - by Founder Gary Zeune in White Collar Crime Fighter

Hubbell details life of fraud - September, 2000 in San Antonio Express

Speaking with Conviction - from Report on Fraud

Corporate crooks hit lecture circuit - from Denver Post

Ex-Con Tells How Auditors Failed to Help Clients Guard Against Fraud - by Mark Morze in White Collar Crime Fighter

Preventing Your Firm's "Enron" - by Founder Gary Zeune in Ohio CPA Journal

SAS 99 17 Ways to Protect Yourself From Malpractice - by Founder Gary Zeune in 7 CPA journals

Regulation SAS 99 Aimed at Curbing Company Fraud - from Bizjournals , March 2004

Business First Auditors' Alert: How NOT to Get Sued Under Fraud Auditing Standards - by Founder Gary Zeune in White Collar Crime Fighter

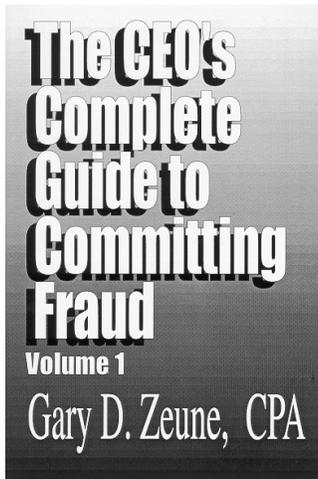
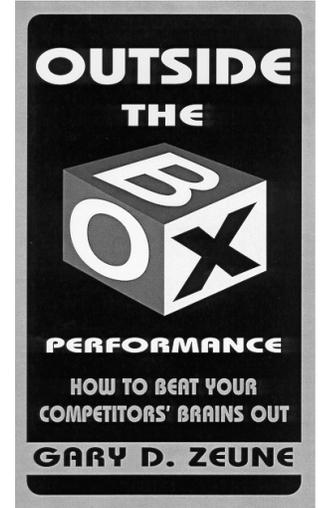
SAS 99 Friend or Foe - by Founder Gary Zeune in two publications

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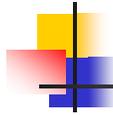


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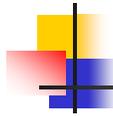


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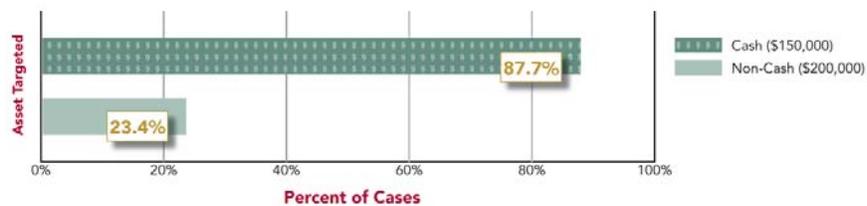
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Breakdown of Asset Misappropriations – Cash vs. Non-Cash⁴

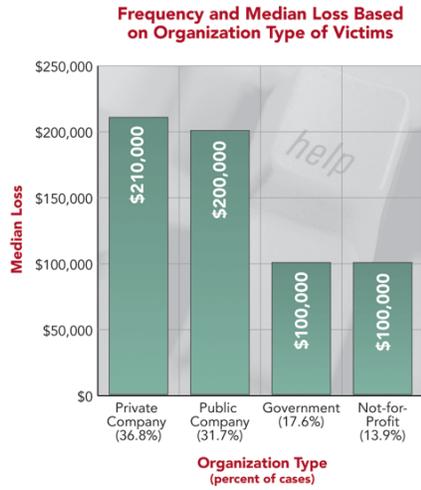


⁴The sum of percentages in this chart exceeds 100% because a number of cases involved the misappropriation of both cash and non-cash assets. In those cases, we were unable to subdivide the losses to determine exactly how much was attributable to cash vs. non-cash schemes.



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- The following chart shows the distribution of cases among the four organization types, and also illustrates the median loss for cases in each group. As we can see, privately held and publicly traded companies were not only the most heavily represented organization types, they also suffered the largest losses, at \$210,000 and \$200,000 respectively.



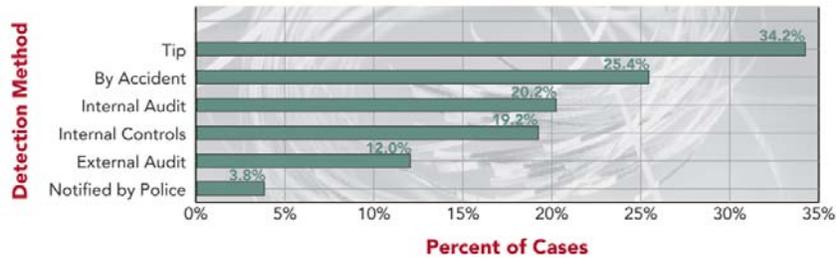
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Initial Detection of Occupational Frauds¹⁰



¹⁰The sum of percentages in this chart exceeds 100% because in some cases respondents identified more than one detection method. The same is true for all charts in this Report showing how occupational frauds were detected.



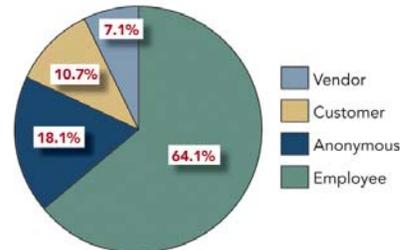
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Detecting Occupational Fraud

Sources of Tips

- Tips were the most common means by which occupational fraud was detected in the cases we reviewed and the majority of tips — nearly two out of three — were received from employees.
- It is important to remember, though, that a significant number of tips came from outside sources such as customers and vendors. As we stated in our 2004 Report, an effective reporting system should be designed to reach out not only to employees, but also to these third-party sources.

Percent of Tips by Source





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- This data is important because losses associated with owner/exec schemes tend to be larger than for any other group, yet these schemes are much less likely to be detected through normal audits or control functions. This highlights the importance of establishing anonymous reporting mechanisms, conducting anti-fraud training and fostering open channels of communication as discussed earlier.

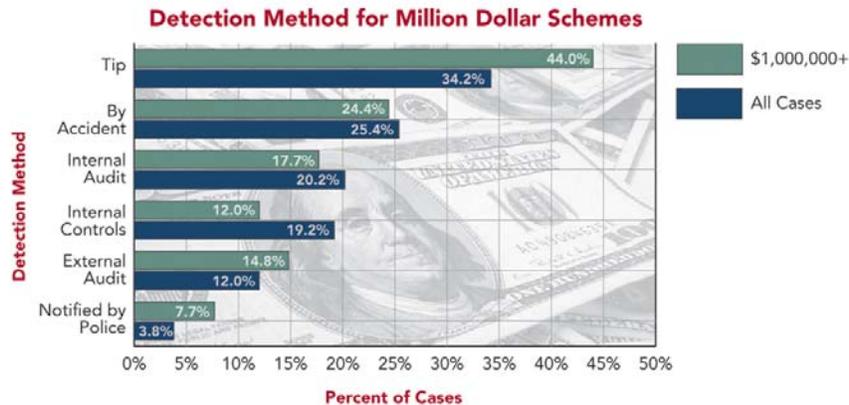


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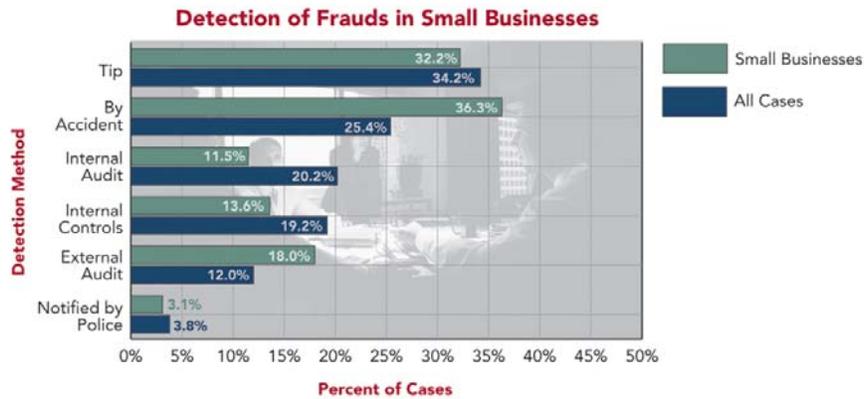


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Detecting Fraud in Not-for-Profit Organizations

- The data for detection of fraud in not-for-profit organizations was largely consistent with the data resulting from all cases. Tips were again the most common detection method, followed by accidents.



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Detecting Fraud in Government Agencies

- Generally speaking, government agencies were much less likely to rely on accidental detection of fraud, whereas their rates of detection through tips, external audits and notification by law enforcement each exceeded the rates for all cases.



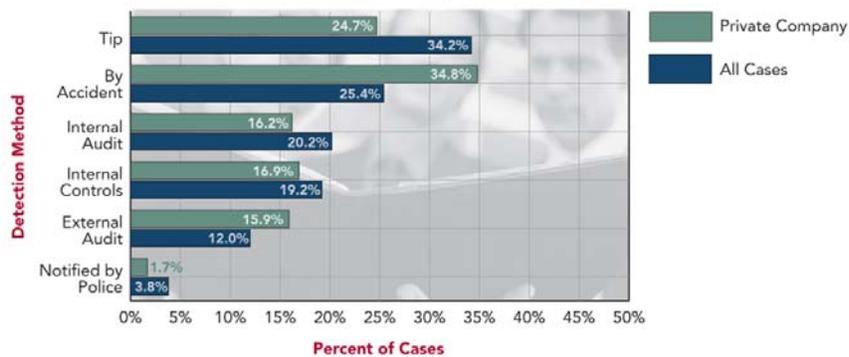
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Detection of Frauds in Privately Held Companies



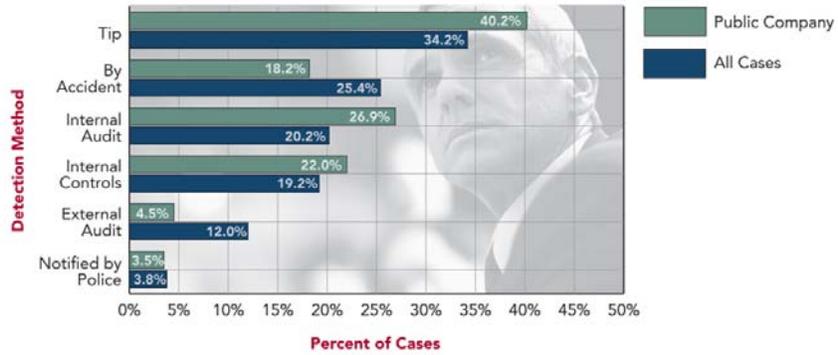
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Detection of Frauds in Publicly Traded Companies



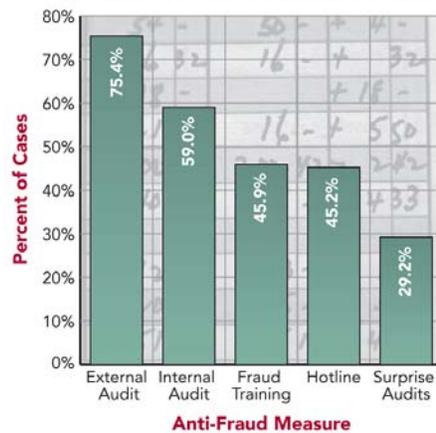
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Frequency of Anti-Fraud Measures



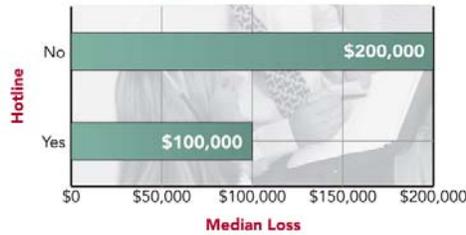
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Median Loss Based on Whether Organization had Hotline



Median Number of Months to Detection Based on Whether Organization had Hotline



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Median Loss Based on Whether Organization had Internal Audits



Median Number of Months to Detection Based on Whether Organization had Internal Audits



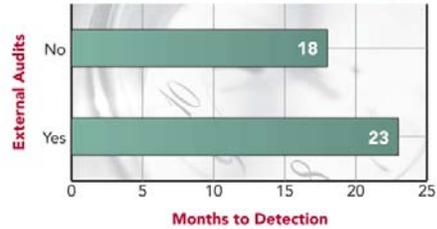


2006 REPORT TO THE NATION ON OCCUPATIONAL FRAUD & ABUSE

Median Loss Based on Whether Organization had External Audits



Median Number of Months to Detection Based on Whether Organization had External Audits

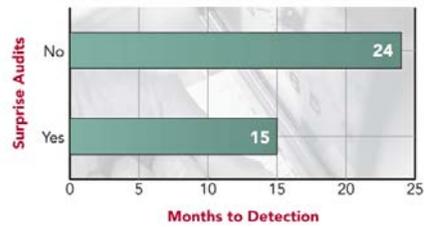


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Median Loss Based on Whether Organization had Surprise Audits

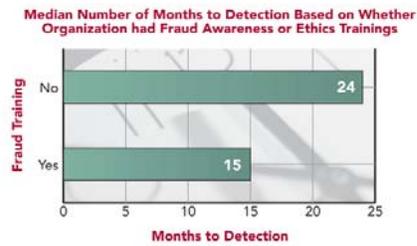


Median Number of Months to Detection Based on Whether Organization Conducted Surprise Audits

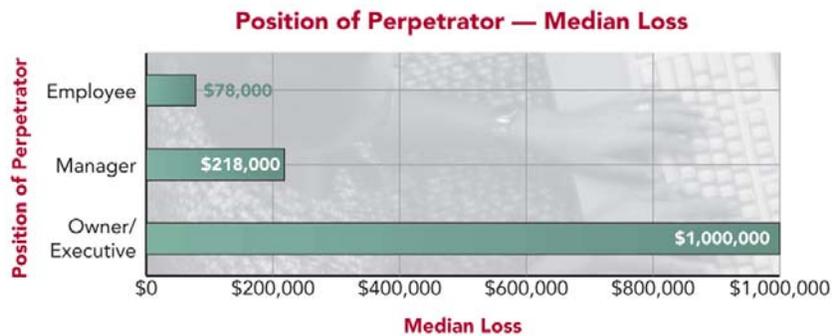




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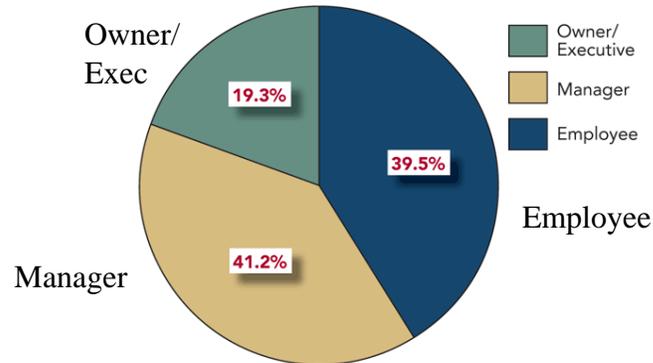
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Position of Perpetrator Frequency



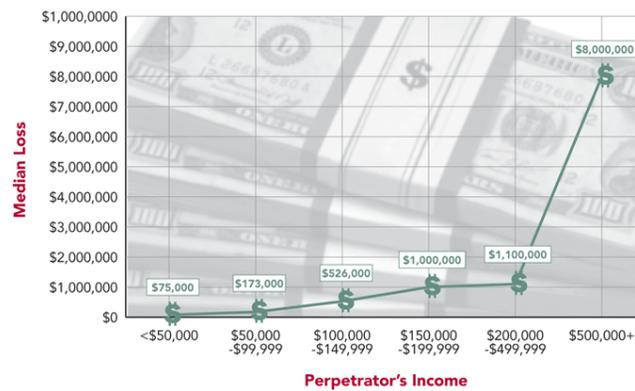
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Median Loss Based on Perpetrator's Annual Income



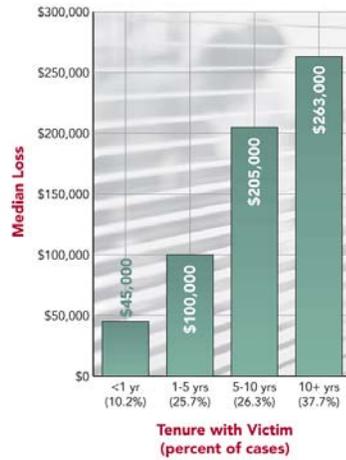
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Tenure of Perpetrator



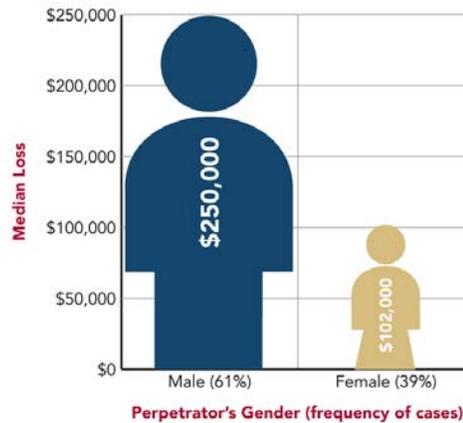
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Gender of Perpetrator Frequency and Median Loss



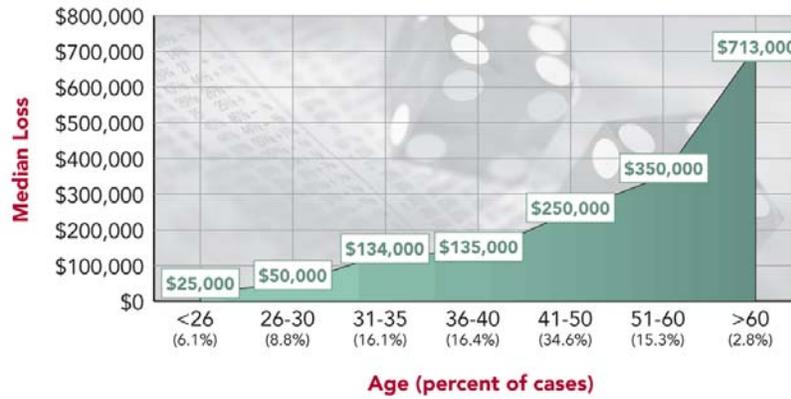
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Age of the Perpetrator



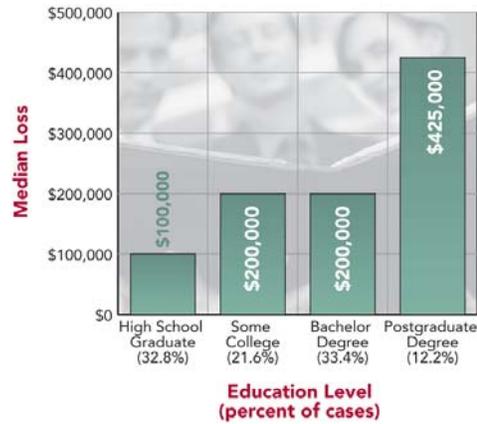
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Education of Perpetrator Frequency and Median Loss



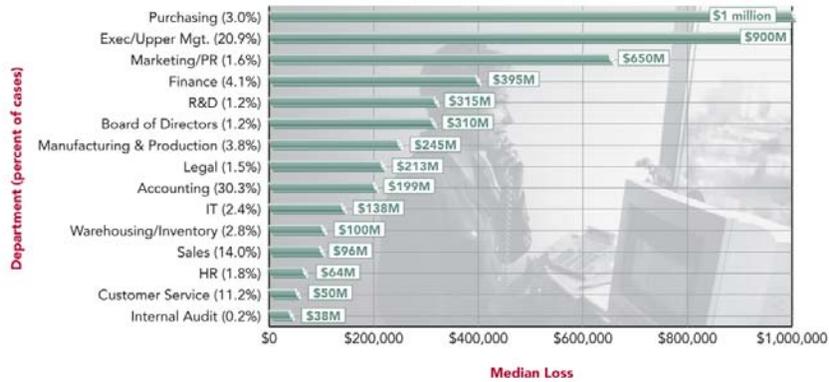
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Median Loss Based on Perpetrator's Department



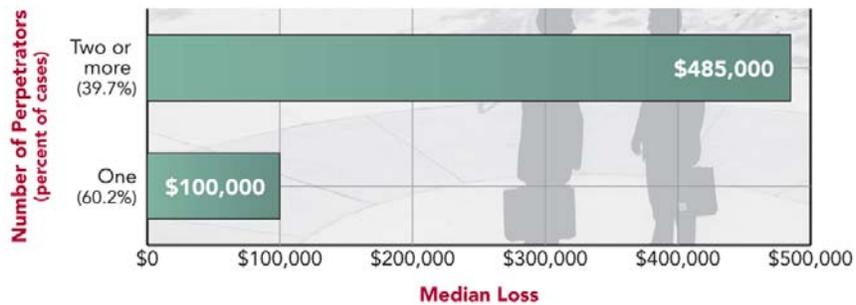
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Number of Perpetrators



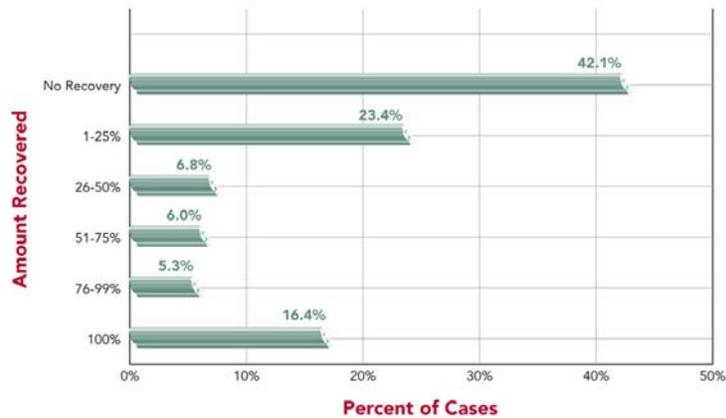
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Recovery of Losses in Occupational Fraud Cases



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The Future

1. I want to grow up and steal from and cheat my employer
2. Who should be concerned about fraud, theft, abuse
 - Auditors
 - Controllers
 - Loss prevention specialists
 - Owners and managers at all levels
 - HR personnel
 - Academics

EVERYONE

Gary Zeune, CPA

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Ethics: Students Who Cheat



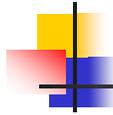
1. 9 business students at U of Maryland were text messaging during an accounting exam
2. Texas teen charged with selling test answers stolen with keystroke recording software
3. 7 Kansas State students plagiarized papers off internet



Ethics: Students Who Cheat



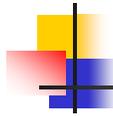
1. 70 % of students admit cheating at least once last year and 25 % admit serious cheating.....Rutgers survey of 60 colleges
2. 70 % of high school students admit to at least one instance cheating and 60 % to plagiarism
3. 50 % of private school students admit cheating
4. Gallup survey of 13 – 17 year olds 70 % cheat 'a great deal' or a 'fair amount'
5. Josephson Institute of Ethics 2004 surveyed 24,763 high school students 62 % cheat on exams



Ethics: Students Who Cheat



1. Cheating isn't new
2. What's new is how widespread and accepted
3. Old.....
 1. People who cheated were in the minority
 2. Kept it to themselves
4. Now.....
 1. Majority
 2. Bold



Ethics: Success at Any Cost



1. Technology + Bad Behavior = Acceptable in Society
2. Who.....
 1. Athletes + drugs + outrageous behavior
 2. Executives cooking the books
 3. Journalists faking stories
 4. Teachers faking student test scores
3. Normalization of cheating....Everybody is doing it....
If you don't, you're a chump
4. Message.....nothing is out of bounds for success

Ethics: Technology Makes Cheating Easy



1. Camera phone to Send and receive pictures of tests
2. MP3 players with digitized notes
3. Internet and IM are both anonymous
4. Fast and quick and deniable
5. 'Grab-and-go' culture
6. Technology masks the guilt factor

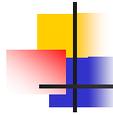


Ethics: Why Students Cheat



1. Education is a means to _____ 
2. Message.....financial well-being more important than being a moral person
3. "If you think what went on with Enron or WorldCom is bad, just wait," Michael Josephson (Founder Josephson Institute of Ethics)

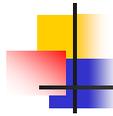
Fraud Tip: What are you doing _____ **to NOT hire cheaters????** _____



Which is more costly for banks



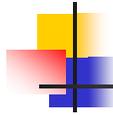
Source: Occupational Fraud and Abuse



Red Flag Work Habits

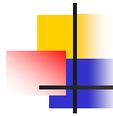


1. Come to work early or leave late
2. Works nights and weekends
3. Seldom absent from work
4. Reports to office during brief absences
5. Ask others to hold work while gone

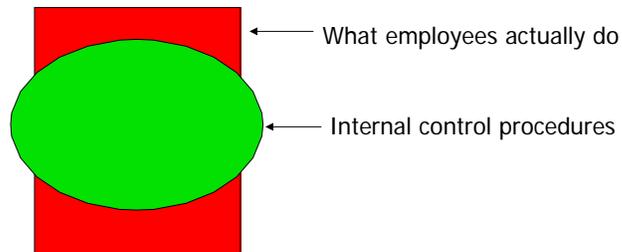


What Fraud Perpetrators Do

- They don't play by the rules
 - (1) Ignore internal controls
 - (2) Compromise internal controls

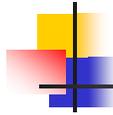


Internal Controls: Concept vs. Reality



Internal Controls and Fraud, Joseph R. Dervaes, CFE, ACFE Fellow, CIA

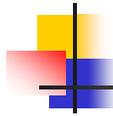
Fraud Tip: If you REALLY want to know how controls work, ask the people who do the work [3 ways to get around controls without getting caught](#).



Fighting Fraud Proactively

1. Tone at the top
 2. Walking the talk
 3. Fraud is not "if", but "when"
 4. Protect your employees
 5. Communicate why controls are important
 6. Trust but verify = _____ **Internal controls** _____
- Fraud Tip: People behave the way they see those above them behaving

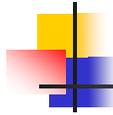
Fraud Tip: _____ ***Trust is NOT a Control*** _____



Four Elements of Fraud

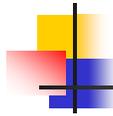


- All four must be present under common law
 1. A material false statement
 2. Knowledge that the statement was false when it was made
 3. Reliance on the false statement by the victim
 4. Damages as a result



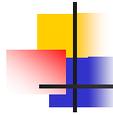
Frauds Facts

1. Employees have a fiduciary relationship to their employers
2. Embezzlement is a special kind of fraud
 - To willfully take someone's money or property by virtue of position of trust or employment
3. Larceny is legal name for stealing
 - Larceny by fraud or deception



Abuse: A Few Examples

1. Buying stuff for others using employee discount
2. Taking company inventory
3. Not working for hours submitted
4. Fake T&E expenses
5. Unauthorized loooooong lunch hour
6. Arrive late/leave early
7. 'Mental' health days
8. Not working to potential
9. Working under the influence



Fraud vs. Abuse

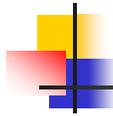


Fraud: Stealing \$100

Abuse: Calling in sick

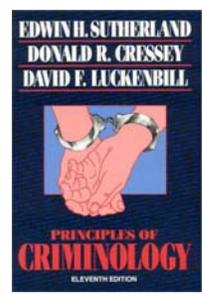
What would likely happen if employee gets caught stealing \$100 **FIRED** vs. what's likely for taking 'sick days **reprimand, or dock a day's pay**

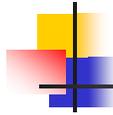
The difference **intent**



History of Fraud

1. Crime had been genetically based
2. Coined "white collar crime"
3. Theory of differential association
 - Dishonest employee will infect honest employees





The Triangle of Fraud

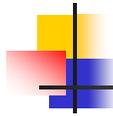


Donald Cressey, PhD

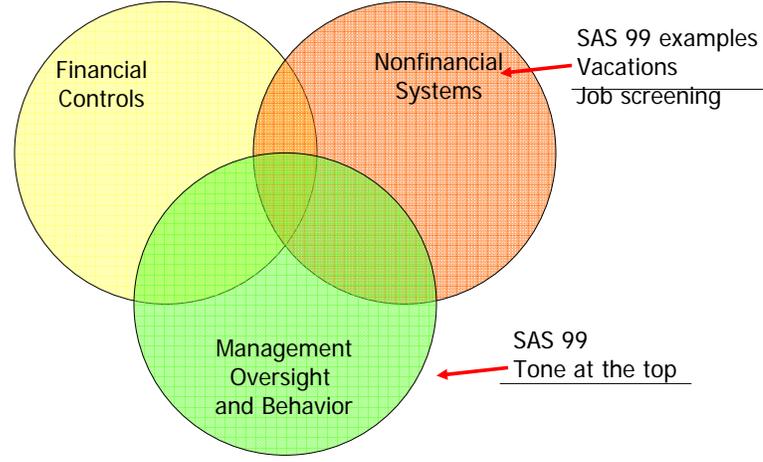
"Trusted persons become trust violators when they conceive of themselves as having a financial problem [NEED...gdz] which is non-sharable, are aware this problem can be secretly resolved by violation of the position of financial trust [OPPORTUNITY...gdz], and are able to apply to their own conduct in that situation verbalizations [RATIONALIZATIONS...gdz] which enable them to adjust their conceptions of themselves as trusted persons," *Other People's Money: A Study in the Social Psychology of Embezzlement*, based on interviews with 200 embezzlers.



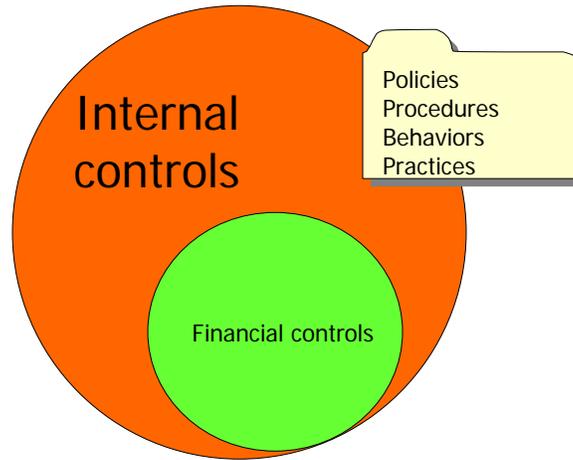
Tip: To minimize fraud and protect assets you need comprehensive control system.



Comprehensive Control System



Internal vs.. Financial Controls

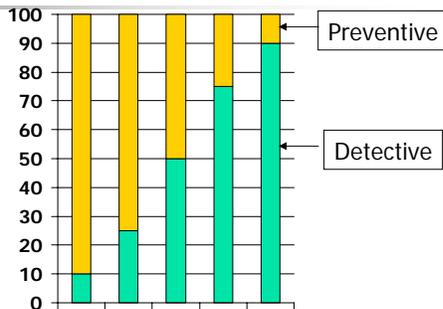


Gary Zeune, CPA

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Financial Controls

- Preventive controls
 - Filing cabinets
 - Passwords
 - Approvals
- Detective controls
 - Bank recs
 - Variance analysis
 - Vacations
 - Surveillance

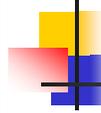


WHICH IS NECESSARY?????

BOTH

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Nonfinancial Controls

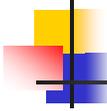
1. HR and IT systems
2. Physical security
3. Communications systems
4. Insurance



Management Oversight + Behavior

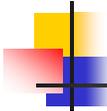
1. Tone at the top
2. Financial analysis and budgeting
3. Communications
4. Board oversight
5. Integrity and ethics
6. Comply with organization policies





Segregate These Duties

1. Billing
2. Recording revenue
3. Receipt and recording payments
4. Deposits
5. Posting receipts
6. Reconciling bank statement
7. Reconciling A/R subledger



Revenue and Cash Receipts

1. Skimming
2. Lapping
3. Write-offs
4. Unauthorized credits
5. Unrecorded sales

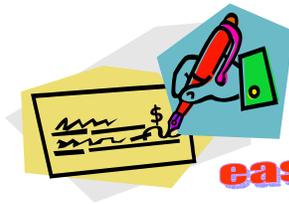




Skimming Committed By.....



1. Anyone collecting or opening mail
2. Anyone logging receipts, preparing or making deposits
3. Anyone involved in sales



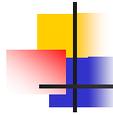
Checks can be easily converted/stolen



The Skimming Surgeon



1. 42-year old plastic surgeon
2. Large physician-owned office
3. Top money earner making up to \$800,000
4. Each doc operated own office
5. Purely elective surgeries not covered by insurance
6. All charges required to be paid upfront turned into front office cashier



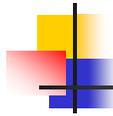
The Skimming Surgeon



1. Patients entered through his private door
2. Rita Mae's nose job
3. She noted her policy covered *some* nose jobs
4. To file a claim she needed a billing statement
5. She calls the office that she had written a check
6. Made out to Dr. Snard
7. Which was deposited in his personal account
8. Dr. Snard kept meticulous medical records

Adapted from Shy Doc Gave Good Face
Gary Zeune, CPA

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The Skimming Surgeon



1. Making money was his family's sport
2. WHY GREED
3. Imposed new controls
 - Central billing system
 - Post signs educating patients
 - Segregate duties
4. 4 years and \$200,000
5. Practice allowed Dr. Snard to stay with counseling

Adapted from Shy Doc Gave Good Face
Gary Zeune, CPA

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Understated Sales



1. Recorded but at too little
2. Cashier prepares written receipts but instead of carbon paper between the slips inserts **cardboard**
3. False discounts give customer receipt for full price but record sale at discount



Other Skimming Opportunities



1. Late fees and similar charges
2. Write-off of receivables
3. Unauthorized credits
4. Unrecorded sales
 1. Ring **NO SALE**
 1. Detection: **secret shopper**
 2. Remove the printer ribbon, track sales, steal cash, roll **blank paper back**
 1. Detect by **sequentially numbering the sales**



Preventing(?) Skimming



1. Can't prevent
2. Occurs at any point funds enters
3. Dual control at first receipt
 - Don't have to hire a second employee
 - Each person count half in presence of other
4. Segregate recording payments and post payments
5. Lockbox, but NOT foolproof
 - Some customers won't use it
 - Print invoices with or insert BRE's with **employee's address**



Detecting Skimming



1. Rotate duties and require vacations
2. Reconcile BREs received and Post Office charges



Purchasing and Disbursement Schemes



1. Billing schemes
2. Personal expenses
3. Refund schemes
4. Check tampering and EFT schemes

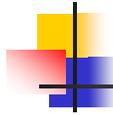
Fraud in Tooth College



1. Married college business office supervisor takes girlfriend on business trip
2. Cover additional expense with phony expense report listing as his travel mate a college senior internal auditor
3. Expense report reviewed at random by same auditor
4. Dir. of IA interviews the supervisor, who is fired
5. Dir. of IA attempts to interview supervisor's office mate and asst, who didn't show up saying her Calif. uncle had been _____

Adapted from Medical School Treats Fraud and Abuse



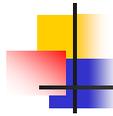


Fraud in Tooth College



1. Search the supervisor's and asst's office finding bags of expensive dental tools and prostheses
2. Supervisor's office process A/P invoices so IA suspects _____ **vendor kickbacks** _____
3. Master file contained every vendor ever **PAID** _____
4. Selected 50 without _____ **addresses/phone numbers** _____
5. Matched with A/P info
6. XYZ Supply billed several times a month, all under \$4500, no vendor application or bid form

Adapted from Medical School Treats Fraud and Abuse



Fraud in Tooth College



1. XYZ invoices on plain paper, prepared on a _____
 1. Some even had invoice numbers
 2. 4 digit Box number but PO used **5 or 6 digits**
 3. Found blank invoices in asst's _____
2. Vendors and employees could pick up _____
3. Thank you in mail from vendor for purchasing 8 toner cartridges of \$1,500 each but cost max \$ **183**
4. Supervisor was stunned his asst had stolen \$63,000 working next to him and he _____ **didn't know it** _____

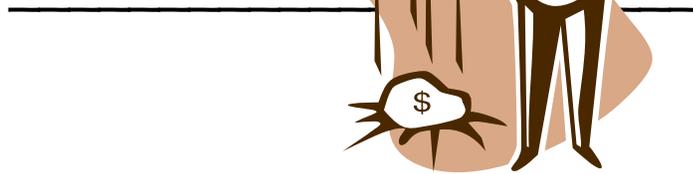
Adapted from Medical School Treats Fraud and Abuse



Fraud in Tooth College



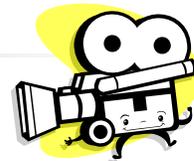
Fraud Tip: _____



Adapted from Medical School Treats Fraud and Abuse

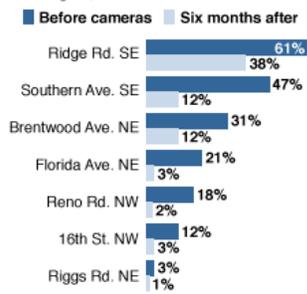


Controls "Drive" Behavior



CAUGHT ON TAPE

Percent of vehicles going more than 10 mph above the speed limit before and after speed cameras were installed in various locations in Washington, D.C.



Source: Insurance Institute for Highway Safety



Controls Over Purchasing and Disbursements



1. Purchase request and authorization
2. Receiving and recording payable
3. Approval of vendor invoices and check writing
4. Mailing of checks
5. Reconcile A/P subledger and bank account

Personal Purchases



1. Use legit vendors
2. Usually not material
3. Purchasing or receiving employees
4. Supplies, food, books, clothing, computers, office furniture, and equipment
5. Typical control weaknesses
 - Failure to reconcile purchases with receivers
 - Failure to segregate duties



Credit Card Abuses



1. Anyone can have one
 2. No credit checks on employees
 3. Credit limits based on reasonable need
 4. Locked up until needed
 5. Card holders acknowledge rules and responsibility
 6. Prompt review of statements
 7. Submit supporting charge slips or pay personally
 8. Quickly suspend or revoke if abused
- Fraud Tip: Use purchasing cards instead of credit cards



Credit or P-Card Code of Conduct



1. Criteria for issuance
2. Initial and annual credit checks
3. Position of trust
4. Used for business (with examples)
5. Never used for personal expenses or cash
6. Maintain physical control
7. Procedures for lost cards



Credit or P-Card Code of Conduct



8. Spending limit by card
9. Types / amounts needing prior approval
10. Submit charge slips within ____ days
11. Report disputed charges within ____ days
12. Procedures to request increase in limit
13. Acknowledge violations of card policy violates code of conduct and is grounds for revocation, firing or prosecution
14. In writing and signed annually



Purchasing Card Features

1. Single transaction limit
2. Monthly dollar limit
3. Finance office/Budget \$ limit
4. Merchant blocking
5. Daily transaction limit
6. Monthly transaction limit
7. Total company limit
8. Can be different to each cardholder



Duplicate Payment Schemes



1. What: Multiple payments to legit vendors
2. Who: Purchasing employees, AP or accounting clerks
3. Poor controls make it easy
4. Services are easier since **nothing physical**
5. Simple: Copied/faxed/original invoice not cancelled

Minimizing Duplicate Payments



1. Preventive controls
 - Pay from ONLY original invoices
 - Match invoices with receivers or POs
 - Match quantities or services against authorized
 - Capture vendor invoice numbers
 - Immediately cancel vendor invoices
 - Don't allow requestor to mail check
2. Detective controls
 - Review vendor histories, endorsements
 - Confirmations

Fictitious Vendor Invoices

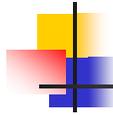


1. Most for services
2. Don't divert check
3. DON'T mail to PO Box, family, home address
4. Use former legit vendor
 - Must intercept the check or change the address

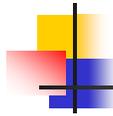
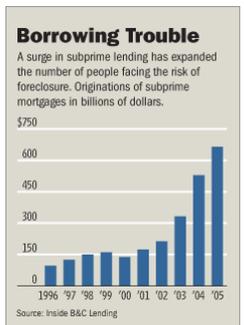
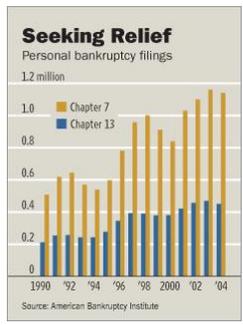
Minimizing Fraudulent Vendors



1. Preventive controls
 - Verify existence
 - Segregate duties
 - Delete old vendors
2. Detective controls
 - Review vendor master file
 - Compare budget vs. actual and prior year
 - Review vendor payment details
 - Consecutive invoice numbers
 - Different sequence



Rationalizing Reasons to Steal

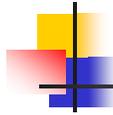


Little Rationalizations



Item Stolen	%
Pens	60
Post-It	40
Envelopes	32
Paper	28
Paper clips	26

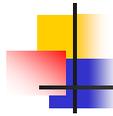
Fraud Tip: What month is stealing office supplies the greatest — **AUGUST** —



Ethics: Resumes



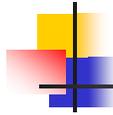
1. Society for Human Resource Management survey.....
96% of 2,500 members ALWAYS check references, credentials or both
2. ResumeDoctor.com checked 1,133 resumes for employment dates, job titles or roles, and education
 1. 43% had at least one 'inaccuracy'
 2. 13% had at least two 'inaccuracies'



Ethics: Why Lie



1. Conceal periods of unemployment
2. Enhance education and/or cover a shortfall
3. "the dog-eat-dog mentality of American society can drive people to exaggerate credentials. People are more anxious about the economy these days than they were in the '90s," David Callahan, *The Cheating Culture*
4. "When you embellish it speaks to your integrity," Deidra Adams, HR Dir., Constellation Energy



Ethics: Does Training Work



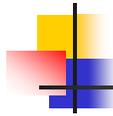
1. KPMG found 75% of 4,000 employees saw misconduct in prior year, same as before **Sarbanes-Oxley**
2. Almost everyone has ethics training by _____ so if you don't have ethics when you start work would you suddenly **become ethical** _____
3. Employees whose companies had rigorous ethics programs reported less misconduct, less pressure to bend the rules, more likely to report misconduct BUT 1/2 said they felt pressure to "do whatever it takes to meet targets"



Fraud Tip: **Results of training unreliable so need other mechanisms**

Gary Zeune, CPA

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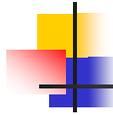
Ethics: Snakes in Suits



1. 1 to 2% of population fit definition of psychopath
2. In-depth surveys of 200 executives
3. Who do these describe: charismatic, great storyteller, highly competitive, skillful influencing others **executives**
4. "I found 3.5% had enough traits to suggest they might have **psychopathic tendencies**" Dr. Paul Baiak
5. Universities are testing MBA students for ethics BEFORE **ADMISSION**

Gary Zeune, CPA

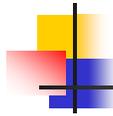
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Ethics: Executive Recruiters



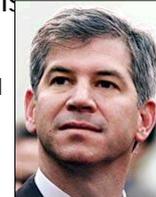
1. In depth background investigations of executives
2. References
3. Talk to former bosses, peers, subordinates, auditors, bankers not on the resume
4. Check for credit or legal problems
5. Does candidate come from company known for 'doing whatever it takes', 'stretching the truth', or 'getting away with everything they can'



Ethics: Driving Unethical Behavior



1. Evaluate performance w/ only quantitative measures
2. Don't judge employees not just on 'making the numbers' but 'how they make the numbers'
 - Complying with company's code of conduct is used for annual pay calculation
3. Keep track of 'star' performers' activities so you don't have an _____



Fraud Tip: Superior performance can mask questionable practices

Ethics: What's the Best Way to Prevent Someone From Stealing



BY APPLYING FOR A JOB WITH _____ YOU AGREE TO THE FOLLOWING BACKGROUND CHECKS

1. Criminal
2. Civil
3. Credit
4. Driving

Signature

Date

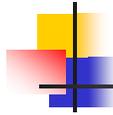
Wished They'd Checked



Dave Edmondson
RadioShack CEO

James Joseph Minder
resigned as chairman of
Gun maker Smith & Wesson
when it was discovered he
had spent **15 years in prison**
for **eight armed robberies**. Asked why
he had not disclosed his past
His reply? **"Nobody asked."**





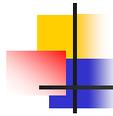
Integrity



"Integrity must be accompanied by ethical values, and must start with the chief executive and senior management and permeate the organization. Control systems cannot rise above the integrity and ethical values of the people who create, administer and monitor them," COSO report.



Tip: People behave the way they see those about them _____ **BEHAVING** _____.



Why Managers Bend the Rules



No legislation or code of conduct can guarantee honesty.





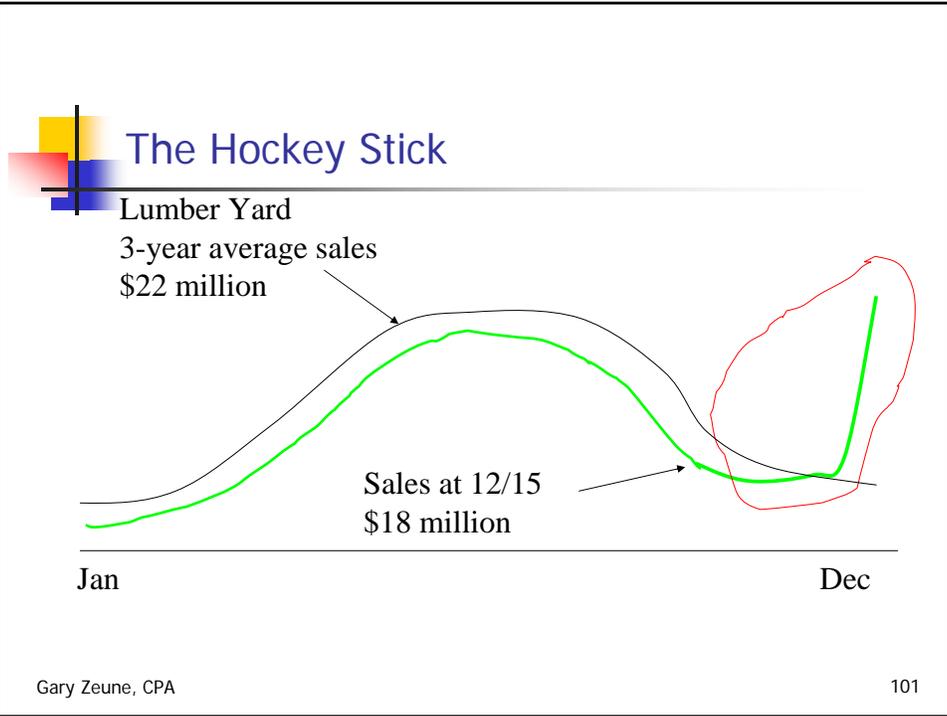
Earnings Management Defined.....



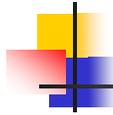
- Did you hear about the company that needed a CFO? Five finalists were given financial information and told to compute net earnings. The first 4 got the right answer, but not the job.
- The last candidate got the job when he asked, **How much do you want it to be?**



Revenue and Financial Reporting Fraud

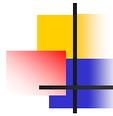


- 
- Sagent Technology**
1. Software to collect information from databases
 2. IPO in 1999 and reached a high of \$43+
 3. Company was desperately trying to reinvent itself
 4. April 2000 auditors refused to approve \$3.5 million contract
 5. Salesman Gary Williams Jones hired in hot dot com bubble as East Coast Federal Sales Director
 6. Church, ferrying the elderly to doctors and inviting kids into his home at Christmas
 7. East Coast recruiter was supposed check his background
- Gary Zeune, CPA 102



Sagent Technology

1. Blond, blue-eyed and blessed with a gift of gab, instinctive feel for people. played football with the San Diego Chargers. began cheating modestly, starting with forging a purchase order of \$172,500 in software to the National Gallery of Art
2. Sent purchase orders with either forged signatures of agency or fictitious employees
3. Submitted \$5million in sales to federal agencies
4. \$428,383 in commissions



Sagent Technology

1. Convicted of bank fraud, forgery, Medicaid fraud and larceny in SC and VA
2. Fired from Global Knowledge in Mass. for fabricating \$11 million contract
3. Phony sales for nearly a year
4. Unraveled when an official with the U.S. Navy Medical Systems called to say the authorizing signature of a real-life official was phony
5. Company collapsed in mid-November 2001



Sagent Technology

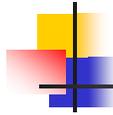
1. Market value dropped by 70% in one day
2. Traded low of 25 cents
3. CEO+CFO fired and restated its financial statements
4. Laid off 20 percent of its employees -- 60 people
5. Shareholder lawsuits
6. Williams gets 46 months in prison

Fraud Tip: What are you doing to confirm the revenue is 'legal'?



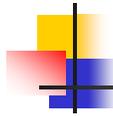
Sagent Technology

1. "There was absolutely nothing sophisticated about this," said Jones' attorney, federal public defender Barry Portman.
2. Never asked to see an original document
3. Never met a real person at the agencies
4. Sagent execs wouldn't confront Jones
5. Delays blamed on federal secrecy or ineptitude
6. Told CFO he would handle the collections himself
7. Senator will help him



Teaching Employees to Embezzle

1. Away from home
2. Working LOTS of hours
3. Accidentally watches a pay per view movie
4. A/P does what with the \$5
5. Why
6. Employee thinks
7. Employee does what next expense report
8. What did you teach the employee



Hiring Ethical Employees

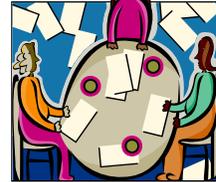
- Your hands aren't tied ___ **Talk to your atty** ___
- Best predictor of future behavior is **past behavior**
- Background and reference checks
- People will voluntarily talk about ethics
- Everyone who interviews should share, crosscheck and evaluate
- People with low integrity tend to think everyone does it and will brag
- Key: multiple examples
- Show understanding, not **agreement** ___





11 Questions to Hire Ethical Employees

1. We often have to choose between what is right and what is best for the company. Tell me about when that's happened to you.
2. Tell me about the ethics of your company. What are you comfortable and uncomfortable with?
3. Tell about an ethical decision you had to make. How did you make a decision?

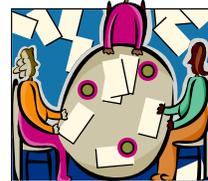


Ask just 2
or 3, not
all 11.



11 Questions to Hire Ethical Employees

4. Why would someone at your company stretch the rules? What did you think?
5. Have you ever had to bend the rules or exaggerate a little to get a sale?
6. Have you ever had to make something seem a little better than it really was?
7. Tell me about a situation where you had to go around company rules to get something done?



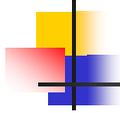


11 Questions to Hire Ethical Employees

8. We've all done things we later regret. Tell me about one and what you'd do differently today.
9. Have you ever had someone mislead the company or a client significant? How'd you handle it?
10. People think regulations, rules, and policies are either to be followed to the letter or to be broken. You?
11. Have you ever gotten credit for work someone else did? How'd you handle it?

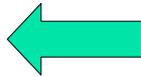


What Are You Doing to Hire and Reward Ethical Employees????

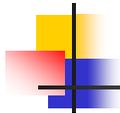


Goal Discongruence

When the 'system' puts the decision-maker in a position of conflict.

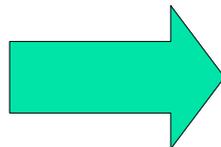
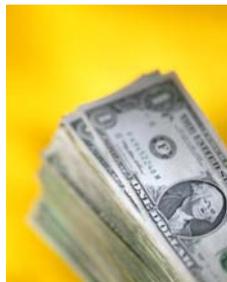


Employee OR Company



Goal Congruence

When the 'system' puts the decision-maker in win-win position.



Employee AND Company

Defective Compensation Systems



"30 Minutes or It's FREE"

Long-haul trucking



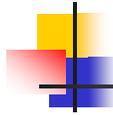
See [Does your compensation system encourage illegal activity?](#) on web site

Melt Down Over Pay System



Siemaszko

1. FirstEnergy Corp caused BIG power 'blackout
2. Recently fined \$28 million for near melt down
3. Cooperate in prosecuting 3 former employees
4. Engineers Siemaszko and Geisen were each indicted on five counts and contractor-consultant Cook was indicted on four
5. Each could get 5 years + fine of \$250,000
6. Company avoided criminal prosecution because it changed its culture

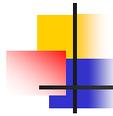


Melt Down Over Pay System

1. Workers covered up the most extensive corrosion ever seen in a plant
2. "Company and NRC concluded that the rust hole had been growing for ___ years and that Davis-Bessie managers had ignored the evidence because they were focused on profits rather than safety."



Rust $\frac{3}{4}$ way through 6" steel cap

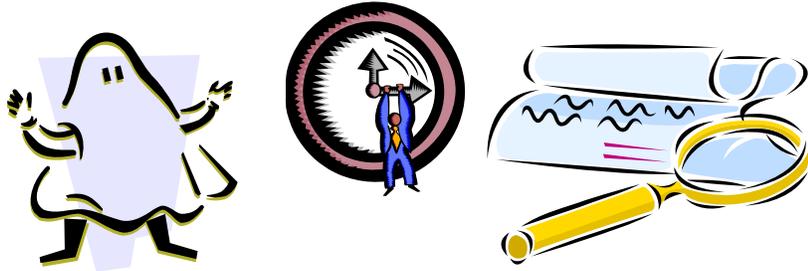


Melt Down Over Pay System

1. Davis-Besse case changed the way the NRC regulates the nuclear industry
2. NRC increased inspection routines and instilled a more "questioning attitude"
3. NRC beefed up training and required more detailed records of discussions with plant operators

Fraud Tip: These changes sound like ___ SAS 99 and SOX ___

Payroll and Expense Schemes

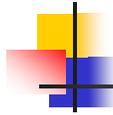


Fraud Tip: Payroll and expense reimbursement are so routine that owners, management, supervisors usually don't pay much attention

Ghost Employees



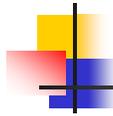
1. Fake employee on payroll
2. Least common but most costly
3. Most common in large organizations because employees don't know other employees
4. What's required:
 - Add a new employee or keep a former employee
 - Hourly – prepare and insert timesheet



Minimizing Ghost employees



1. Different employees add/maintain employee records vs.. check prep and distribution
2. ID
3. Match payroll with employee list
4. Check employee number sequence
5. Do payroll deductions make sense
6. Does net payroll = funds transferred



Minimizing Ghost employees



7. Do all employees have personnel files
8. Check for former employees on payroll
9. Duplicate addresses/SSNs/deposit account #s
10. Reconcile account by someone not in payroll system
11. Review endorsements for multiple paychecks to same person
12. Reconcile payroll accounts to control accounts



Overstatement of Hours Worked



1. Most common
2. Individually small but can be BIG if common
 - Becomes part of company culture
3. 16% of employees report witnessing...E&Y 2002 survey



Overstatement of Pay Rates



1. Usually office workers or someone who can change master file
2. Preventive controls
 - Segregate authorization of pay rates from entry
 - Password protect access
 - Signed forms by supervisor and/or employee
3. Detective controls
 - Review and approve prior to check distribution
 - Hours X Rate (personnel file) = Payroll register

Payroll Withholding Schemes



- Overage to themselves to get a LARGE refund

1 Payroll clerk withholds too little of own pay but remits too much

- Match remittance to total withheld

2 Payroll clerk withholds too little of own pay but over withholds from other employees

- TOTAL withholdings are right

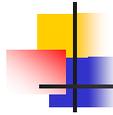
- Can be used on any withholdings

- Outside payroll service

Reverse The Withholdings



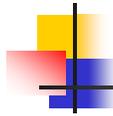
1. Supervisor got payroll software tech to "open" the field codes so she could manipulate them
2. So Federal, state, local taxes, Social Security and other withholding were ADDED to her pay
3. She then put the payroll service CDs in deck drawer
4. Using her own desktop software she generated fake reports so the totals matched amount disbursed
5. How did she cover \$\$ paid to herself overwithheld others
6. Cost to company \$ 350,000 over 4 years



Expense Schemes



1. Best protection
 - Segregation of duties
 - Comprehensive review and approval
2. *but* difficult to CONTROL if top management
 - Review by board, internal or external auditor even if has to be after the fact



Fictitious/Duplicate Expenses



1. Easy to create/duplicate receipts with desktop publishing
2. Fill in blank copies of receipts _____
3. Submit same receipt on multiple expense reports
4. Submit different receipts for same expense _____
5. Submit receipt paid by another organization
 - Employee on industry association board/comm
6. Submit receipt for items paid directly
7. Two employees submit receipts for same expense _____



Fictitious/Duplicate Expenses Prevention and Detection



1. Cross-check between employees
2. Compare employee's sequential expense reports
3. Submit within specified time to minimize periods reviewed
4. Compare expense reports with AP for direct pays

Airfare and Travel - 3 Schemes



1. Travel never taken but turns in expense report
2. Tickets for companions buy one at full fare get second free
3. Switching tickets
 - Buy 2 tickets for legit trip
 - 1st is advance low price ticket
 - 2nd is last minute high priced refundable ticket
 - Cancel second ticket
 - Keeps net difference



Controlling Travel Schemes



1. Preventive controls
 - Pre-approval
 - Proof of trip (get _____)
2. Detective controls
 - Cross-check ticket numbers
 - Employee's name on supporting docs
 - Match dates on tickets to hotel/meals/timesheets



Wal-Mart Fake Expenses



1. Vice Chairman and No. 2 executive
2. Submitted fraudulent expenses + illegal gift card use for \$500,000
3. Guilty of wire-fraud and tax-evasion
4. Nearly all for personal expenses
5. "I'm reimbursing myself for funding secret anti-union spying campaign, so I don't have any receipts."
6. 51 \$100 gift cards for company All-Stars



Thomas Coughlin



Wal-Mart Fake Expenses

1. Bought 3-12 gauge shotguns, puppy chow Celine Dion CD, vodka, wine, fishing license, \$3.54 Polish sausage
2. Caught when he presented a gift card to buy contact lenses and clerk couldn't understand why he was an All-Star
3. Sentence: 27 months home detention + 5 years probation, no jail (8/10/06) \$50,000 fine + \$400,000 restitution



Thomas Coughlin

Fraud Tip: WHY because he could = GREEDY



Wal-Mart Fake Expenses

1. VP Robert Hey, Jr., 42
2. 3 counts of wire fraud=30 years + \$1 million **EACH** for aiding + abetting but pleaded guilty = probation
3. Between 1997 and 2004 "used his position to...illegally manipulate the employee travel reimbursement and vendor invoice accounting system at WalMart to embezzle monies, gift card and products, which were provided to a senior WalMart executive for the executive's personal benefit and use."

WARNING: The Good-Soldier defense doesn't work



Dear Abby: I have owned a business for 13 years. Recently, one of my employees forged a customer's check in the amount of \$1,000. I have tried to talk to him and ask why, and I have threatened to go to the police. We have more than just a working relationship. We did a lot of things together outside work but never had a sexual relationship.



This man worked for me for more than two years and, other than this crime, was a perfect employee. He insists that he didn't forge the check that he had cashed at the customer's bank and tries to justify it by saying he deserved the extra money. I always paid him on time and gave him many perks. Please help me....Lost Big-Time

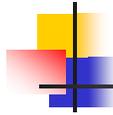
Dear Lost: Wake up! Your "perfect employee" is a thief, a forger and a sociopath. He might be a charmer — aren't they all — but that's what has enabled him to reach the point he has.

For your emotional wellbeing and for the sake of your business, please tell the police what you have learned. If you don't, the next person to be burned will be you. Bank on it.

How to Deter Employee Fraud



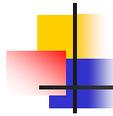
1. Know the risks in your business
2. Make your views on fraud known
3. Create a culture that frustrates fraud
4. Ensure that your internal controls are effective
5. Make certain that personnel policies are effective
6. Review disciplinary policies
7. Perform thorough background and reference checks on all new employees
8. Review and improve internal controls



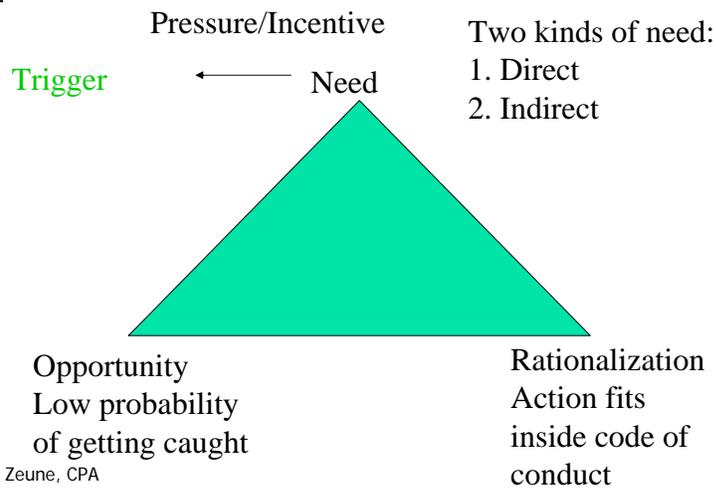
How to Deter Employee Fraud

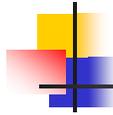


1. Written code of conduct
2. Establish an employee hotline
3. Never drop your guard. Never ignore "red flags"
4. Fraud response plan
5. Internal audit to detect fraud
6. Train senior management in fraud detection and prevention
7. Expand Board of Directors oversight
8. Create a positive work environment



The Triangle of Fraud





Situational Fraud and Embezzlement

