



Fraud and Ethical Behavior  
GFOA Fall Conference  
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# ISLAND SCAM

- A joint venture (“JV”) on a beautiful island far away.
- Total employees 145
- Inconsistencies in financial information being provided by Finance Manager of the JV, “Big Spender”.
- Tab for losses = over \$500,000. \*

# Profile: Mr. Big Spender

- **Hired as Senior Accountant and quickly promoted to Finance Manager.**
- **Authorized signatory on bank accounts and company VISA credit card**
  - ✓ **Credit Card Scam – Personal purchases**
- **Duties included accounts payable, bank and payroll preparation and reconciliation**
  - ✓ **Payroll Scam – Salary increases, TDI, 401K**
  - ✓ **Payables Scam – Checks to self, family members, and as payment for personal expenses**
- **Luxury Car Scam: \$386,000**

# Profile: Mr. Big Spender

- He was the companies Ethics Officer

# What we Build Around

- The people we trust are the people we give access to our assets.
- Commerce can not exist without trust; however, we don't build our operations around trust. We build around process and procedures – internal controls.

# Why They Do It

- Motive
  - Why
  - Perception is reality

# Why They Do It

- Opportunity
- Access

# Why They Do It

## ● Rationalization

- Under loved under paid
- Not respected
- Can't open the doors without me
- Big company, they won't miss the money
- They have insurance
- Government money, they'll print more
- I'll pay it back – just a loan
- Boss is stealing why not me

# Management's Responsibility in Preventing Fraud

- Increasing the perception of detection may well be the most effective fraud prevention method.
- Among the audit profession, this means letting employees, managers and executives know that auditors are actively seeking out information concerning internal theft.

# Management's Responsibility for Preventing Fraud

## ● Reporting System

- The employee can come forward and provide information anonymously and without fear of recrimination for good faith reporting.
- There is an exact method for reporting; i.e. a telephone number, name, or other information .
- The report should not be made to one's immediate superiors.

# Management's Responsibility in Preventing Fraud

- Major Concerns:
  - Lack of segregation of duties
  - Lack of physical safeguards
  - Lack of independent checks
  - Lack of proper authorization on documents and records
  - Overriding existing controls
  - An inadequate accounting system

# Increased Perception of Detection

- Increased use of analytical review
- Fraud assessment questioning
- Enforcement of mandatory vacations
- Job rotation
- Surprise audits where possible