

# Thieves Within Part 1: Are You a Victim of Your Own Employees?

March 23, 2016  
The webinar will start  
at 11:00 a.m. CT.



**Cynthia McSwain**

Sr. Vice President, Outsourcing Services  
Allen, Gibbs & Houlik, L.C

# Administration



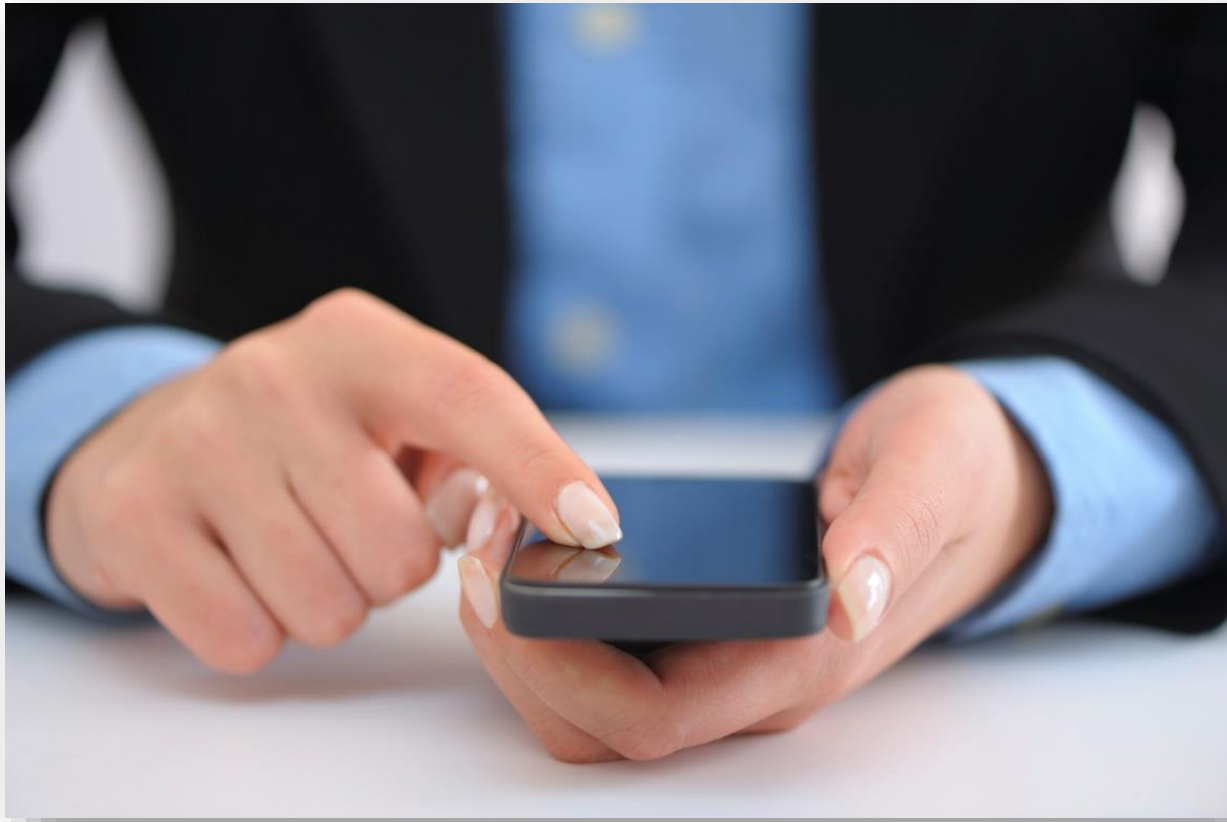
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# Administration



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# About the Speaker



## **Cindy McSwain**

Senior Vice President  
Outsourcing Services

Leads AGH's outsourcing services

10 yrs. audit experience

Member of AICPA, KSCPA, and  
numerous civic organizations

# Objectives

- Understand **occupational fraud** and its **potential impact** to your business
- Use the “**fraud triangle**” to evaluate likely areas of risk
- Understand why fraud happens and **mitigation techniques**
- Watch for the **red flags** that could require follow-up



# Register Now for Thieves Within Part 2

**April 28  
11 am CT  
Register at  
(LINK)**

- Review why occupational fraud occurs and its **impact on your business**
- Identify the most commonly occurring **fraud schemes**
- Understand why **management's approach** is the most important fraud prevention tool
- Learn how to **segregate duties** as an internal control





# Polling Question #1

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# What is Fraud?

## Occupational Fraud as defined by



“The use of one’s occupation for personal enrichment through the **deliberate misuse or misapplication** of the employing organization’s resources or assets.”

# Fraud Statistics

\$

**5% of annual revenue lost to fraud**

## 5% of annual revenue lost to fraud

# Median fraud loss in US dollars

# Fraud Statistics

\$\$\$  
\$

5% of annual revenue lost to fraud

145<sub>k</sub>

Median fraud loss  
in US dollars

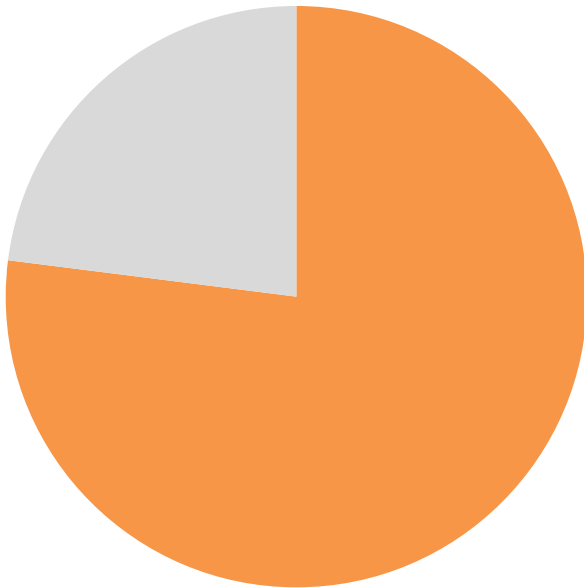


Frauds lasted a median of  
18 months before detection

# Fraud Statistics

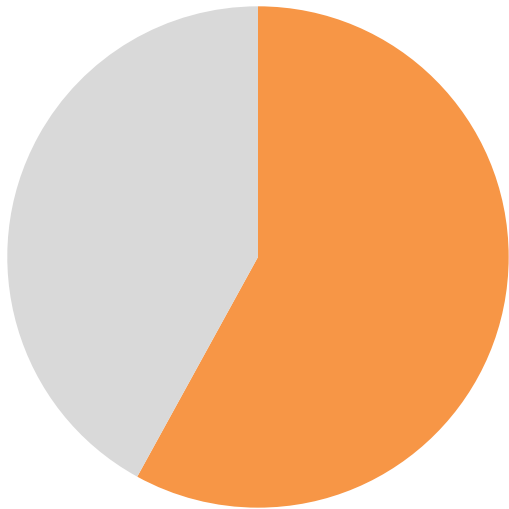
77%

of studied frauds  
were committed by individuals  
working in:



- Accounting
- Operations
- Sales
- Executive/upper management
- Customer service
- Purchasing
- Finance

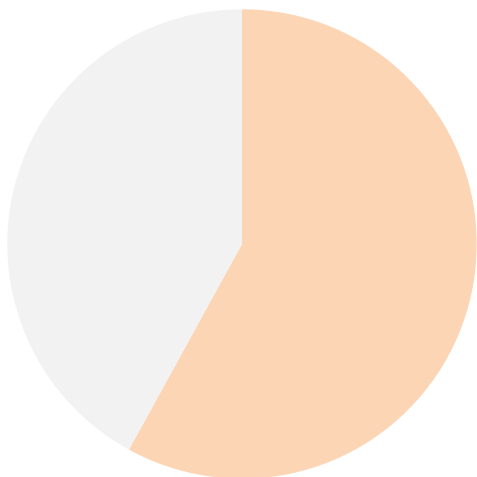
# Fraud Statistics



58%

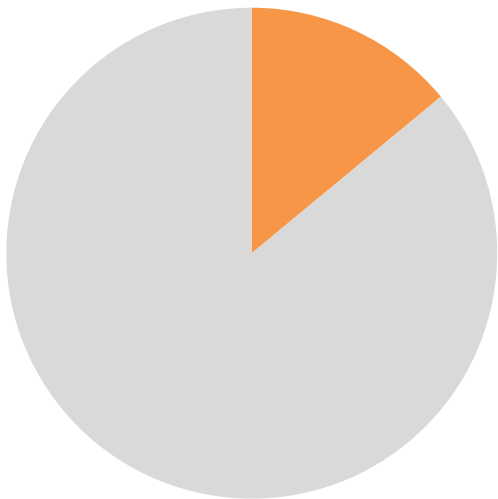
recovered **none**  
of their losses.

# Fraud Statistics



58%

recovered **none**  
of their losses.



14%

made a **full** recovery.

# Seen It!

**Theft of cash** on hand or cash receipts

**Theft of inventory** or supplies

**Fraudulent** or inappropriate disbursements

**Misreported** financial statements

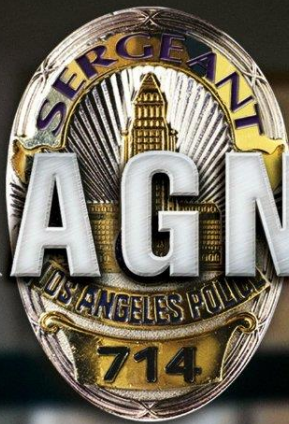
Plus there's the entire subject of **corruption**



**WANTED**

**for  
Occupational Fraud**

# DRAGNET



1969



# WANTED

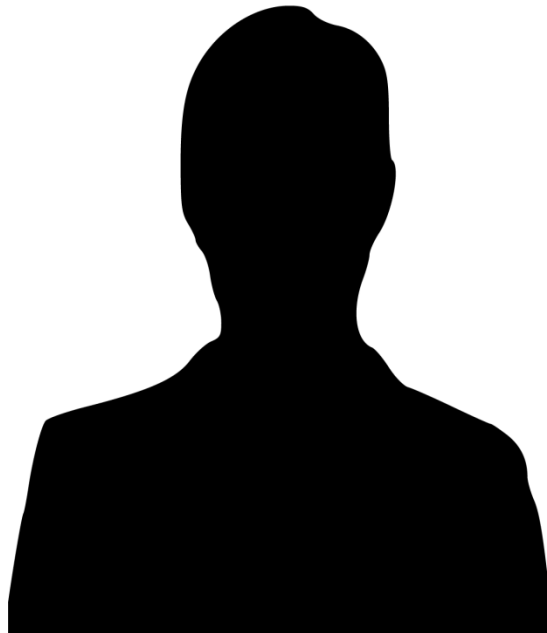


# WANTED

for  
**Occupational Fraud**

## **Suspect**

**Department of Public  
Works Employee  
City of Pasadena, California**



## **Method**

- **Crime spree spans over a decade**
- **300 fraudulent invoices (moving utilities underground)**
- **Four bogus vendors**

## **Haul**

**City issued 189 checks  
totaling \$6.4 million**

## **Partial Recovery**

**\$5MM insurance claim**

# WANTED

for  
**Occupational Fraud**

## Suspect

**Department of Public  
Works Employee  
City of Pasadena, California**

## Method

- **Crime spree spans over a decade**
- **300 fraudulent invoices (moving utilities underground)**
- **Four bogus vendors**

**PROSECUTION PENDING**



## Haul

**City issued 189 checks  
totaling \$6.4 million**

## Partial Recovery

**\$5MM insurance claim**

# **WANTED**

**for**  
**Occupational Fraud**

## **Victim**

**Construction equipment sales &  
rental company  
\$100MM annual revenue**

## **Methods**

**Lapping  
Document manipulation**

## **Haul**

**\$150K+ Cold Hard Cash (Known)**

**No Recovery**

## **Suspect**



**Branch office manager /  
bookkeeper**

# WANTED

for  
**Occupational Fraud**

**Victim**

**Construction equipment sales &  
rental company  
\$100MM annual revenue**

**Suspect**



**ATTEMPTED TO PROSECUTE  
DROPPED BY DISTRICT ATTY**

**Method**

**Imping  
document manipulation**

**Haul**

**\$130K+ Cold Hard Cash**

**No Recovery**

**Branch office manager /  
bookkeeper**

# **WANTED**

**for**  
**Occupational Fraud**

## **Victim**

**Publishing Company**  
**\$15-20 MM**  
**annual revenues**

## **Haul**

**\$50K Cold Hard Cash**

## **Method**

**Bank wire transfers**



## **Suspect**

**Company Officer**  
**Trusted Friend**  
**Gambling Addict**

**Full Recovery**  
**Retained Employment**  
**Little change to controls**

# WANTED

for  
**Occupational Fraud**

## **Victim**

**Publishing Company**  
**\$15-20 MM**  
**annual revenues**

## **Suspect**

**Company Officer**  
**Trusted Friend**  
**Gambling Addict**

**Haul**  
**\$50K Full Hard Cash**

**CHOOSE NOT TO PROSECUTE**

## **Method**

**Bank wire transfers**

## **Full Recovery**

**Retained Employment**  
**Little change to controls**





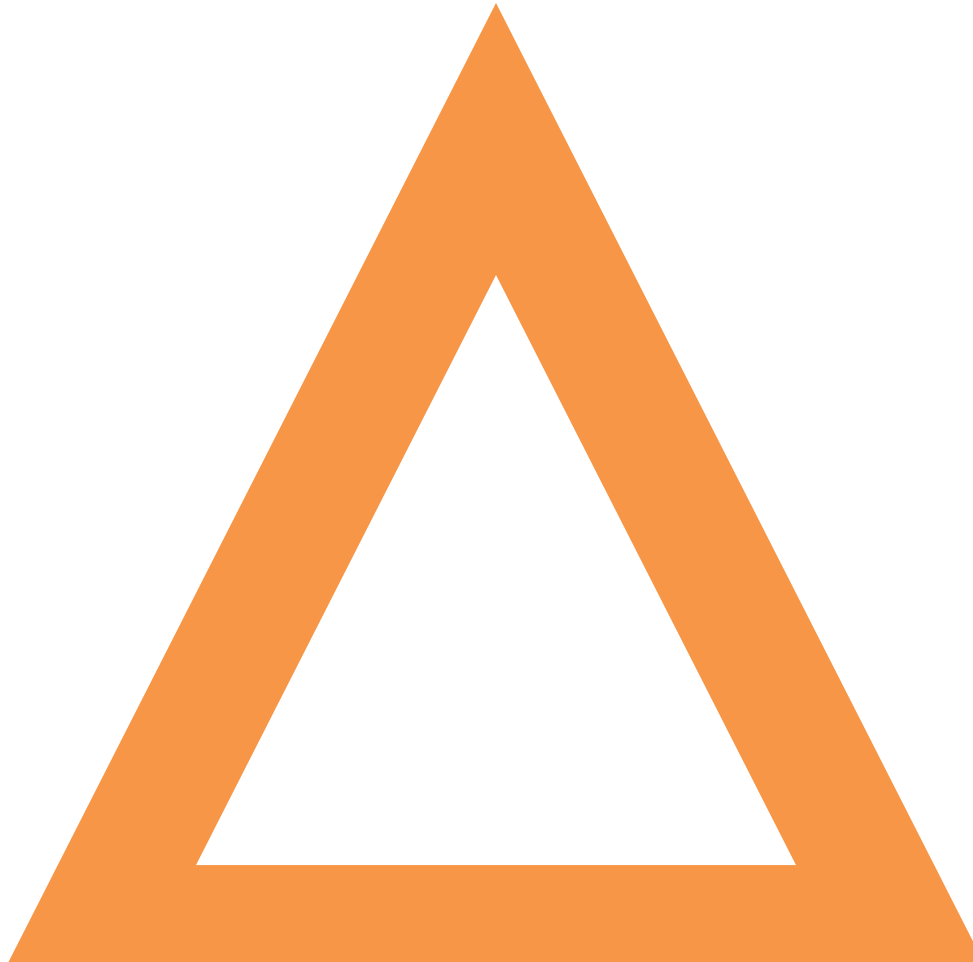
# Polling Question #2

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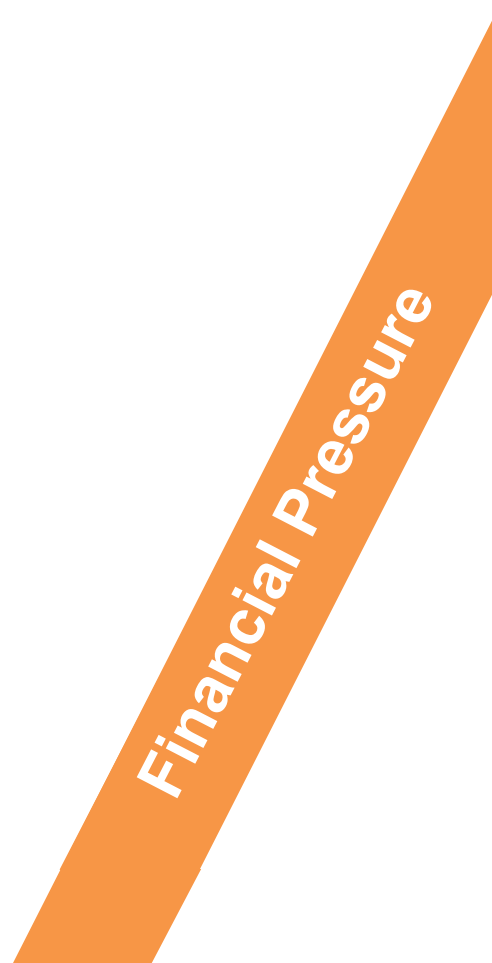
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# The Fraud Triangle



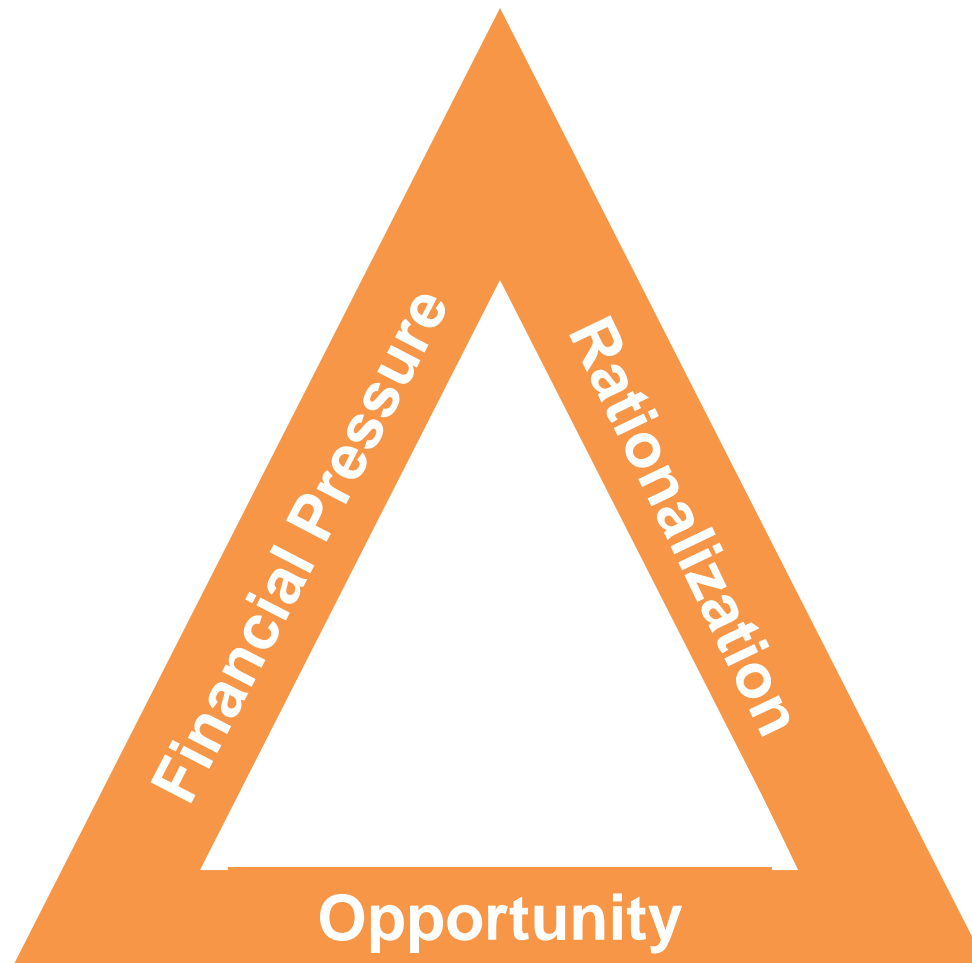
# The Fraud Triangle



# The Fraud Triangle



# The Fraud Triangle



# Why Does Fraud Occur?

**Lack** of management review

**Lack** of internal controls



# Annual Management Review

**Assets** most susceptible to fraud, theft or loss

**Areas** lacking separation of duties

**Changes** in staff structure

**Organizational** culture

**Employee** communication mechanism





# Internal Controls

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**Internal Controls** defined:

Actions designed to **minimize the potential** of material misstatement, fraud or other financial misconduct or error.



# Internal Controls

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**Two broad categories:**

**Management** approach

**Financial** policies and processes

# Internal Controls: Management Approach

**Ethical tone**

starts at the top

**Communicating**

ethics in all we do

**Educating** and training  
all employees



# Internal Controls: Management Approach

**Hiring practices** include background checks

**Implement** Code of Conduct

**Incorporate** ethics into performance evaluations

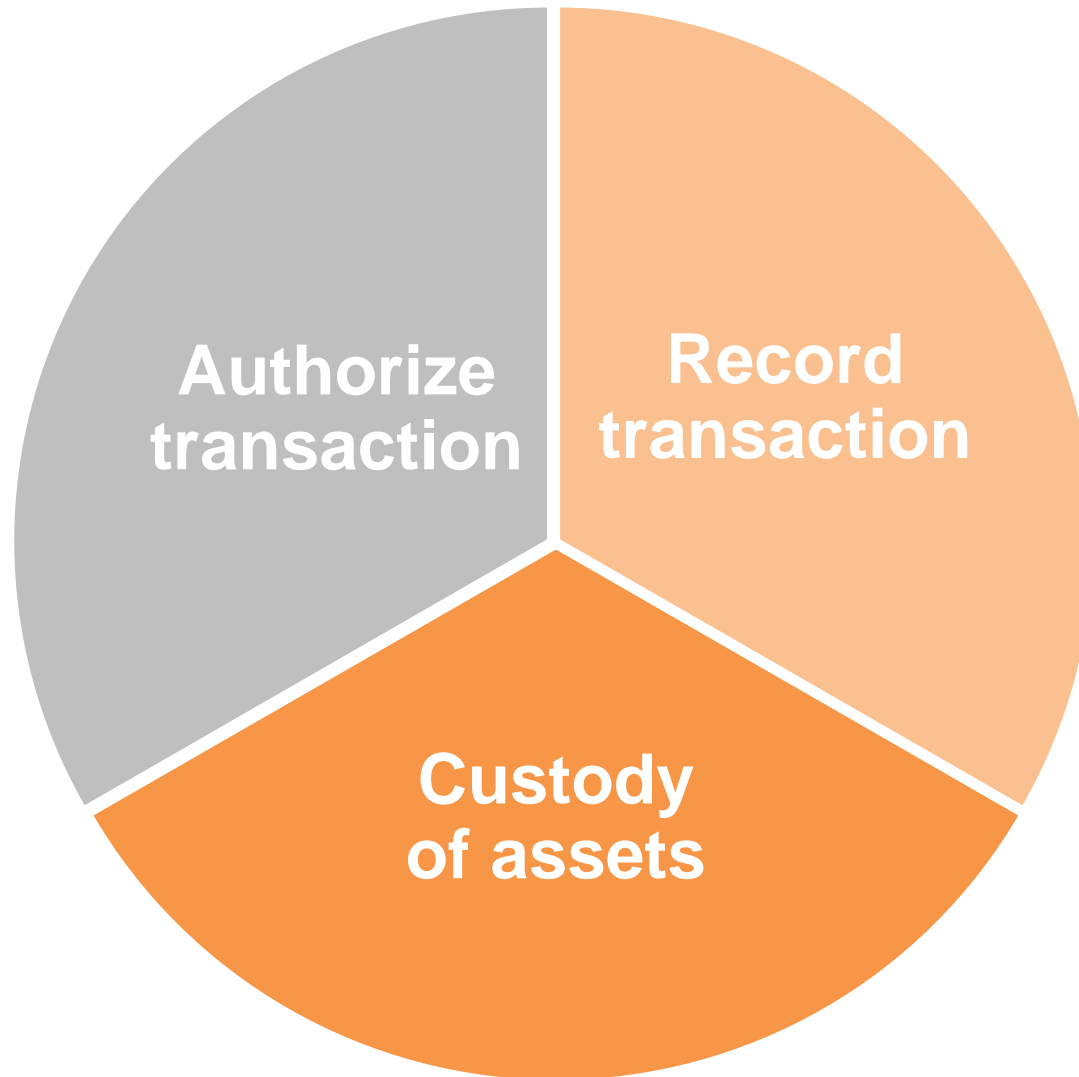
**Two-way communication**

Management – discussion of ethics by leaders

Employees – Employee hotline (Our Workplace)



# Internal Controls: Financial Policies and Processes





# Polling Question #3

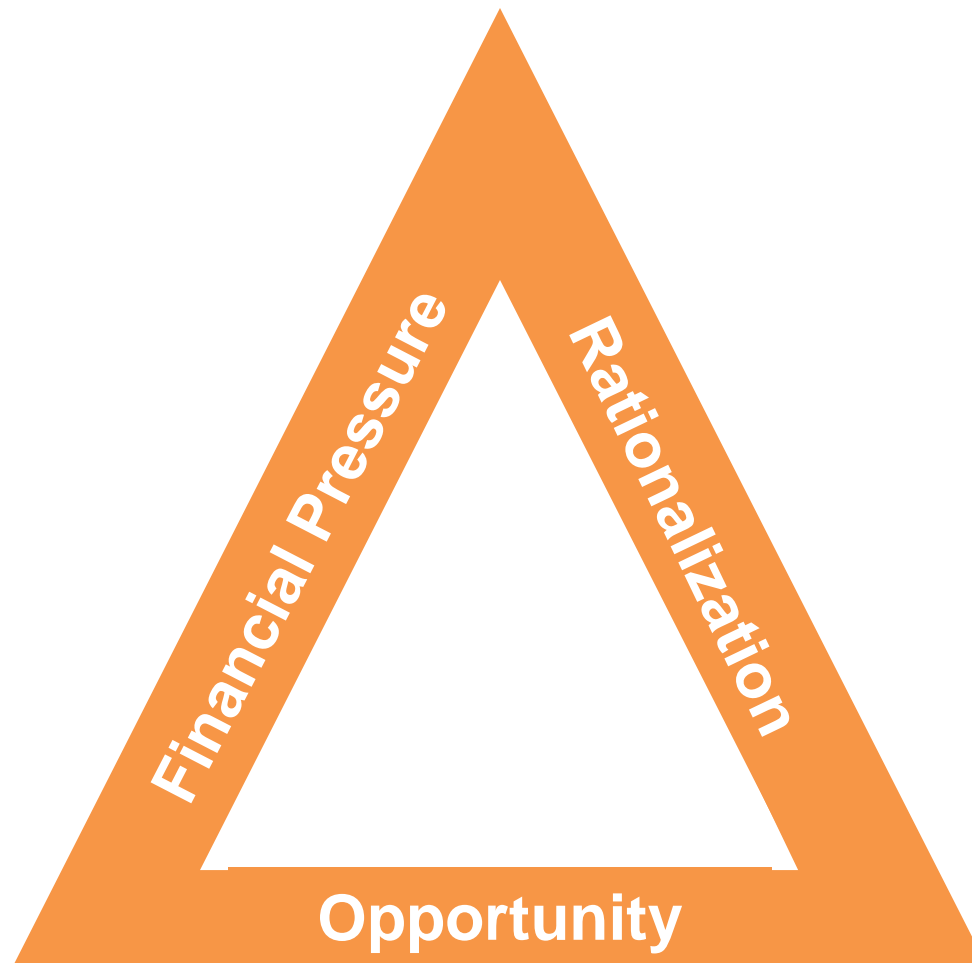
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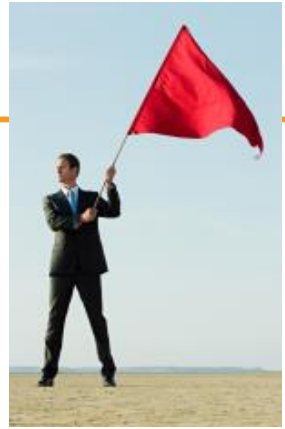
# Red Flags



# The Fraud Triangle Revisited



# Red Flags



**Living** beyond means

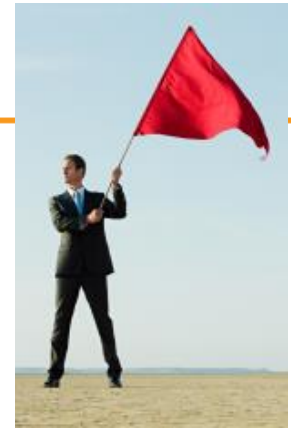
**Never** taking time off

Always an **excuse**

**Significant changes** in employee behavior patterns

Experiencing **financial difficulties**

# Red Flags



**Exhibiting** control issues  
(unwillingness to share duties)

**Unreasonable** answers to questions

Numerous **overrides**

**Lots of** “white-out”

**Inventory shortages**

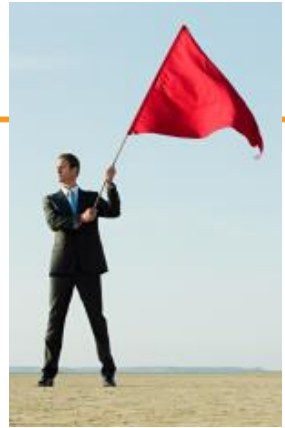
# Red Flags

**Inability to reconcile** accounts on a regular basis

**Unexplained** variances

**Large number** of “adjustments”

**Unusual discrepancies** between actual and budgeted results





# Polling Question #4

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# Recap



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**Register now**

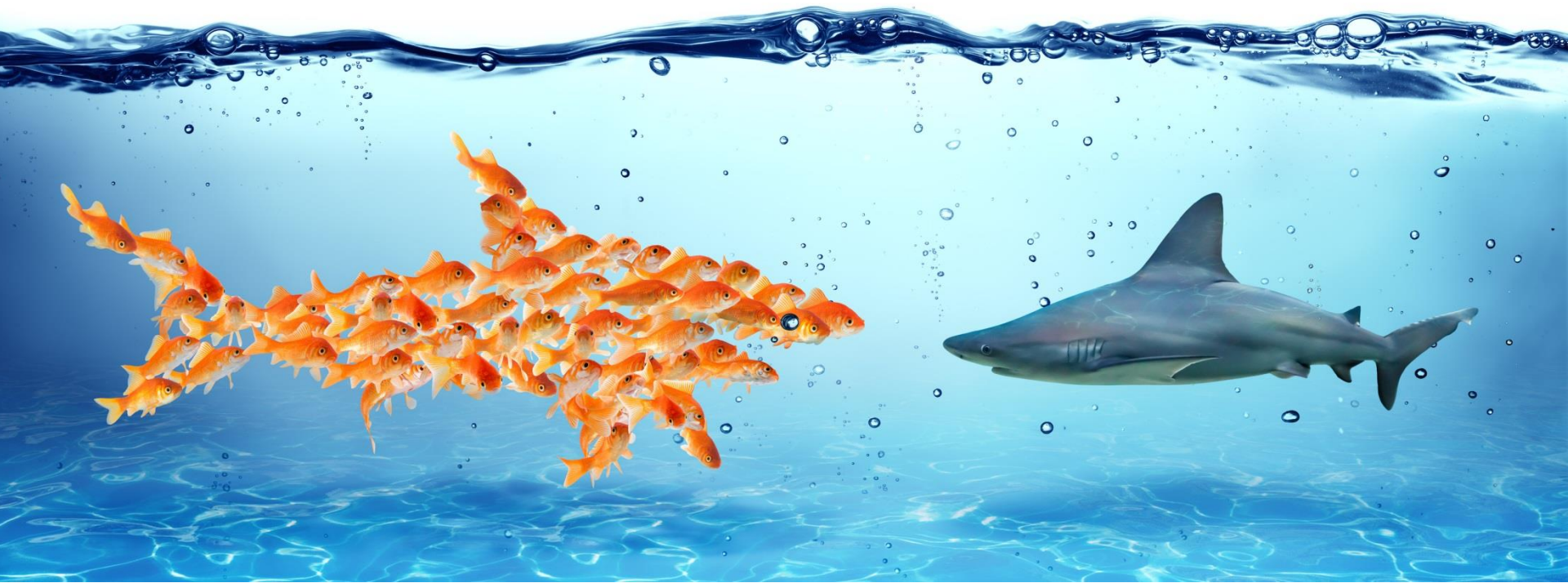
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**Thieves Within Part 2:  
Powerful Fraud Prevention Tools for  
Small Business**

**April 28 at 11 am CT**

**[AGHuniversity.com](http://AGHuniversity.com)**

# Everyone Plays a Part.....



# Thank you!



## Cindy McSwain

Sr. Vice President, Outsourcing Services



cindy.mcswain@aghlc.com



<http://www.linkedin.com/in/cindymcswain>



@AGHCindy



316.267.7231

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