

FraudAware®

Training to Prevent, Detect and Report Fraud



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The Scary Truth about Fraud and What We Can Do About It

IIA-ACFE Conference

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In Case You Don't Already Know:

According to major accounting firms, professional fraud examiners and law enforcement:

- ✓ **Business losses due to fraud increased 20% in last 12 months, from \$1.4 million to \$1.7 million per billion dollars of sales. (Kroll 2010/2011 Global Fraud Report)**
- ✓ **2/3 of embezzlers are female (Marquet Int'l)**
- ✓ **But men steal more: \$864K vs. \$694K (Marquet)**

Conundrum #1: "As enforcement actions have ramped up, fraudsters are devising new ways to beat the system," said Sarah R. Saldana, the U.S. Attorney in Dallas.

Conundrum #2: We meet in well-organized and informative conferences such as this to better seek ways to get the bad guys. But the bad guys *never* meet, yet they keep winning (Kroll's 20%).

Conundrum #3: Wall Street blew up the economy in '08, with fraudulent mortgages serving as the explosive, yet no banker of any significance has yet been held accountable.

... Long before Greg Smith quit and skewered GS in NYT: There Was "Goldman Sachs Elevator Gossip" (Twitter Acct: @GSElevator):

"The lottery is just a way of taxing poor people who don't know math."

"If you can only be good at one thing, be good at lying... Because if you're good at lying, you're good at everything"

"The fact that most people are too stupid to know how dumb they really are is the fabric holding our society together."

"Without question, Michael Milken has done more for humanity than Mother Teresa"

THE FACES OF EMPLOYEE FRAUD: THE 99%-ERS AND THE 1%-ERS

Ghosts on the Payroll

- ✓ Beverly Roan, payroll clerk for J. Marchini Farms pleaded no contest to embezzlement and check fraud
 - ✓ Roan created **six fictitious employees** and collected paychecks for “them” totaling \$980,000
 - ✓ She forged her manager’s signature and **cashed the checks at a local market**
 - ✓ She used the proceeds to gamble at Chukchansi Gold Resort and Casino
 - ✓ The fraud was discovered when the company had to reissue checks while Roan was out of the office
 - ✓ Roan was sentenced to seven years in state prison and ordered to pay back money stolen, **something that officials doubt will happen**
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Source: Merced Sun Star

Toxic Tone at the Top

- ✓ James Cram, former CFO of a local restaurant chain, was arrested on embezzlement charges stemming from a year long investigation
- ✓ Between 2006 and 2010, Cram allegedly stole \$1.146 million
- ✓ When Cram left the company, an audit was performed. He allegedly wrote checks to himself and personal creditors
- ✓ Faces 19 felony counts including grand theft, money laundering and, of course tax evasion
- ✓ Being held on a \$500,000 bail at Police department



Source: Redondo Beach PD

Klepto-Church Lady

Anita Collins, 67, worked in AP for the Archdiocese of New York for eight years. Considered completely trustworthy and “dedicated”.

Problem: Over the eight years she used 468 Archdiocese checks to pay for small items such as “office supplies”, “utility bills”, etc.

Total: \$1 million.

Red flag: Unusually frequent package deliveries to her home. Later found she had used Church funds to pay for high-end collectible dolls.





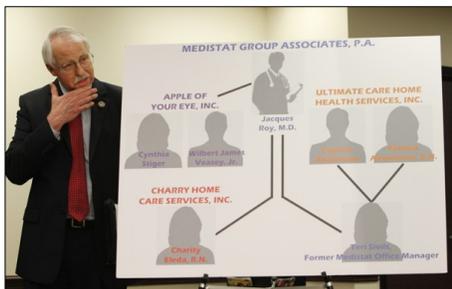
Raj Rajaratnam

Mastermind of “largest illegal stock-tipping case in a generation.” (Bloomberg)

Latest news: GS traders may have been involved

\$375M health care fraud scheme went unnoticed for years; some critics say system broken

—*Washington Post*



Mastermind: Jacques Roy MD

Small part: Charity Elegia RN -- one of several hundred accused in the 6-year scheme visited The Bridge Homeless Shelter in Dallas to recruit homeless “beneficiaries” staying there. Paid recruiters \$50 for each one they found at The Bridge and directed to her car parked outside the shelter’s gates.

Falsely certified them for Medicare and billed \$475,000 in bogus home H-C services.

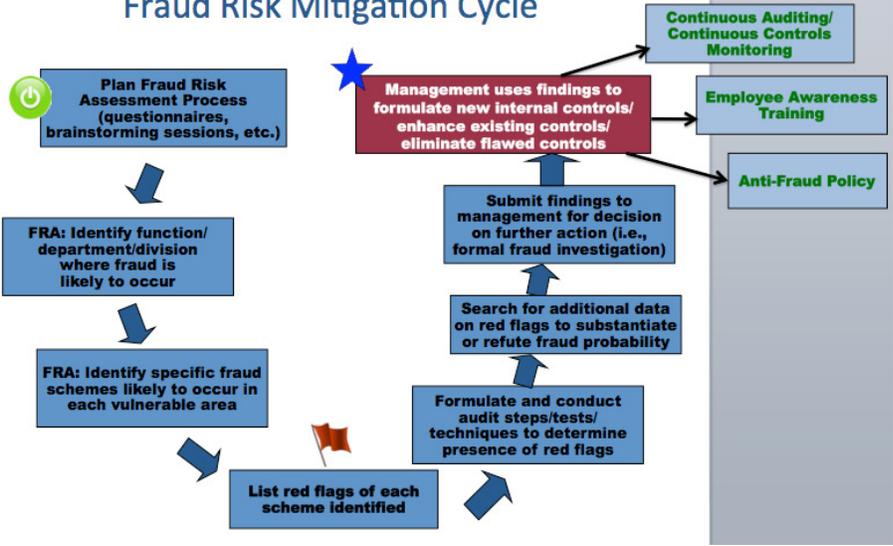


- July, 2010: Pays \$550 million to US Government for deceiving clients regarding subprime mortgage-backed “toxic” derivatives.
 - 2011: Blankfein gets a 14.5% compensation boost.
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- 1) Dodd-Frank: Regulation punishes “good banks” for what the “bad banks” did.
 - 2) Volcker rule –curbing “proprietary trading in risky securities” being attacked from all sides
 - 3) SEC Enforcement Director, Robert Khuzami said in the interview, “Financial firms sank during the financial crisis for reasons that had nothing to do with fraud or illegal conduct.”
 - 4) “Under bank pressure”, CFTC reversed brand new restrictions on trading in “sophisticated” derivatives (swaps) that were instrumental in destroying the US financial system (exempting firms doing under \$8 billion in swap business from regulation (Bloomberg)).
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GETTING IT DONE

Fraud Risk Mitigation Cycle





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