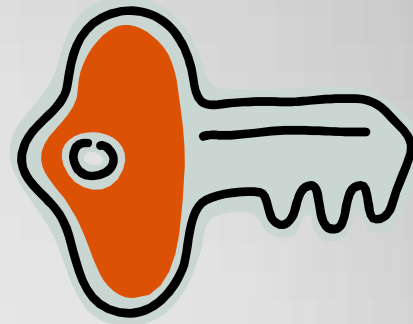


Bringing Kansas Home

2011 Kansas Housing Conference

August 11, 2011

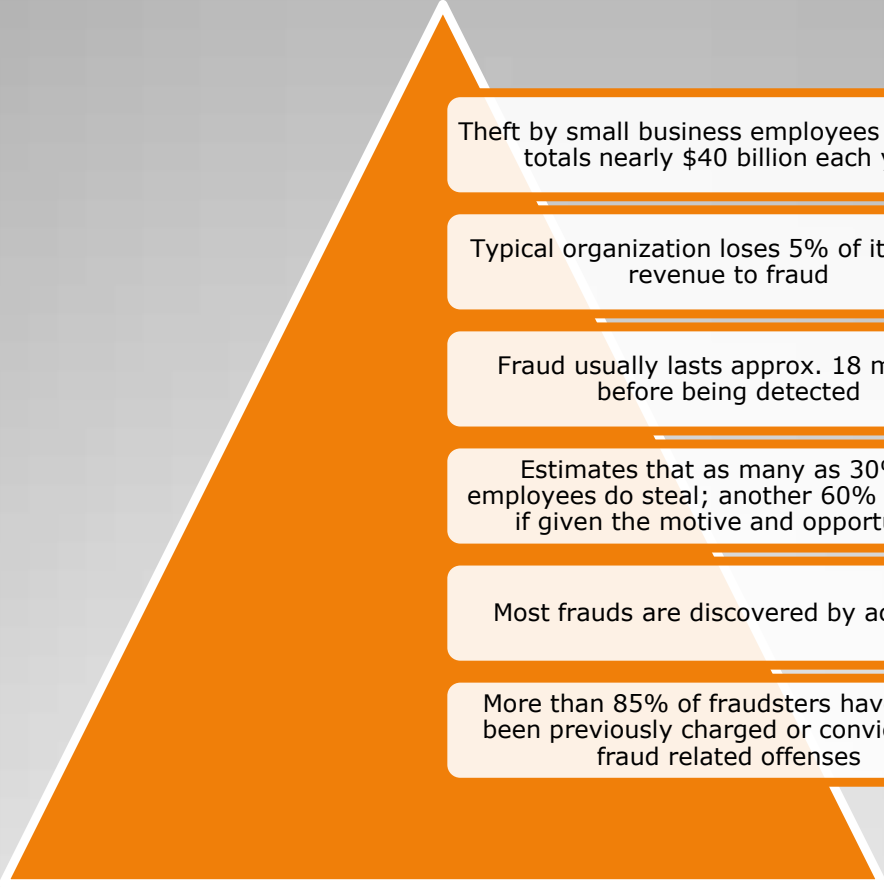
Light Fingers, Bad Intentions: Strategies to Protect Your Entity



August 11, 2011

Presented by Karen Linn

Berberich Trahan & Co., P.A.



Theft by small business employees in the US totals nearly \$40 billion each year

Typical organization loses 5% of its annual revenue to fraud

Fraud usually lasts approx. 18 months before being detected

Estimates that as many as 30% of employees do steal; another 60% will steal if given the motive and opportunity

Most frauds are discovered by accident

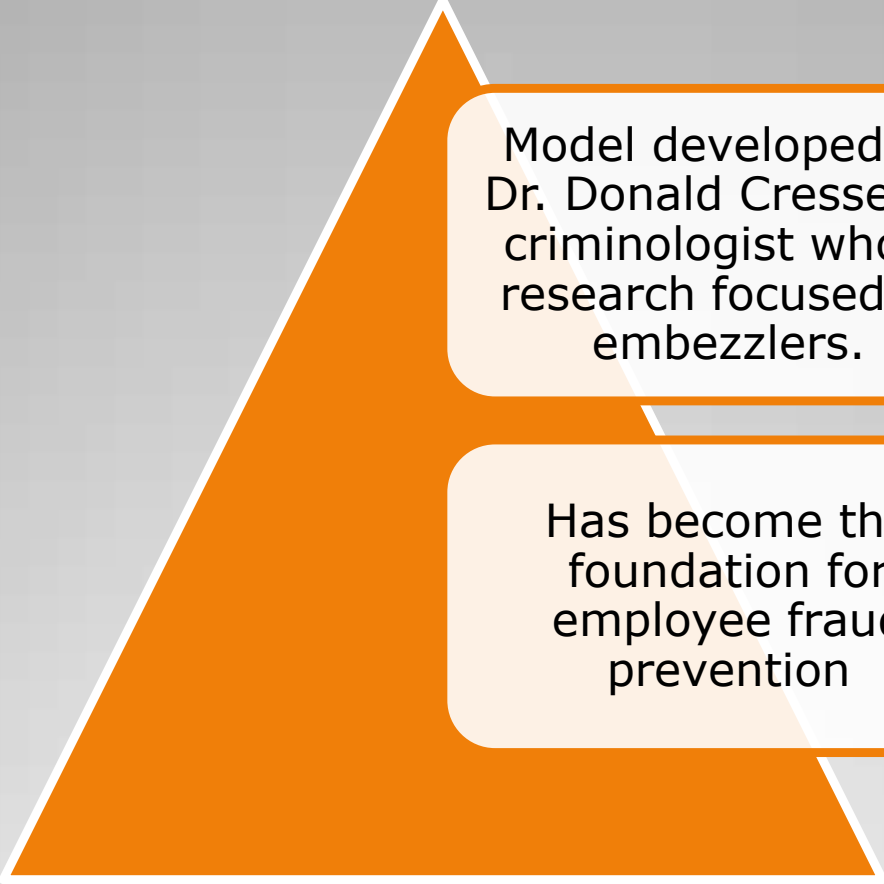
More than 85% of fraudsters have never been previously charged or convicted for fraud related offenses

FRAUD FACTS

When it comes to employee theft there are two contributing factors:

- Lack of basic accounting controls
- Misplaced trust in employee
 - Usually the long-term, long-trusted employee
 - Usually the least suspected

FRAUD



Model developed by Dr. Donald Cressey, a criminologist whose research focused on embezzlers.

Has become the foundation for employee fraud prevention

The Fraud Triangle



The Fraud Triangle



FRAUD TRIANGLE

The ability to commit fraud

The employee must see:

The ability to abuse their position of trust to solve a financial problem

A low perceived risk of getting caught

Opportunity

Opportunity is created through:

- Weak internal controls
 - Lack of supervision and review
 - Lack of separation of duties
 - Lack of management approval

Opportunity



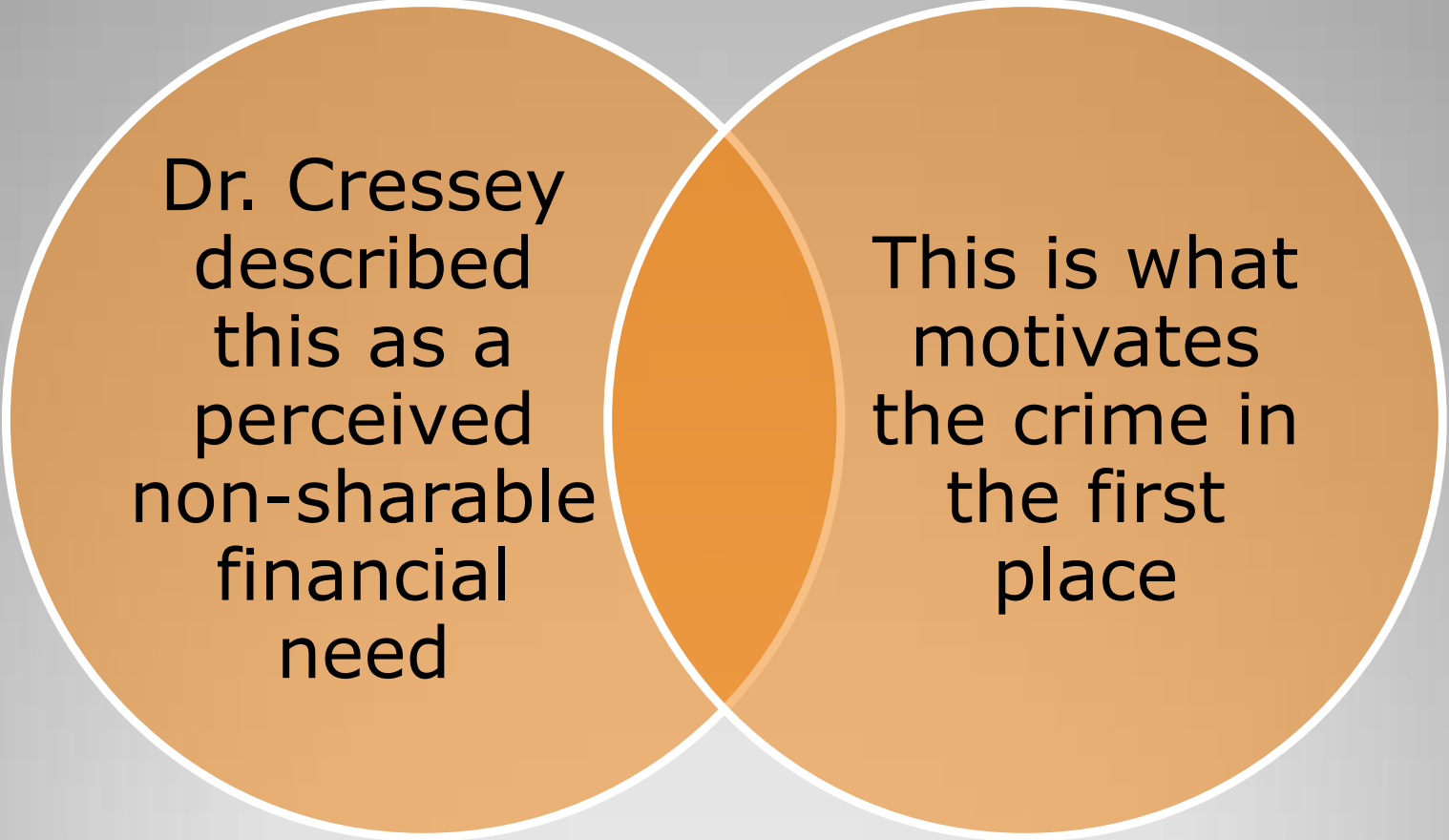
Opportunity is created through:

- Failure to establish procedures to detect fraudulent activity
- Poor management oversight
- Abuse of one's position and authority

Opportunity

THIS IS THE
ONE ANGLE OF
THE FRAUD
TRIANGLE
THAT AN
EMPLOYER CAN
CONTROL

Opportunity



Dr. Cressey
described
this as a
perceived
non-sharable
financial
need

This is what
motivates
the crime in
the first
place

Pressure

The fraudster has some **financial need or problem** that he/she is unable to solve through legitimate means:

- Unable to pay personal bills
 - Large medical bills
 - Out of control credit cards
 - Spouse lost job
- Desire for luxury items
- Drug, gambling or alcohol addiction

Pressure

Involves a person reconciling his/her behavior (stealing) with the commonly accepted notions of decency and fraud

Rationalization

Believes
committing
fraud is justified

- To save a family member or loved one
- To keep from losing everything (if they don't take the money)
- Because there is no help from the outside
- Because they are borrowing the money to be paid back

Rationalization

The person believes, because of
job dissatisfaction...

Treatment by
supervisors

Job
environment

Salary

that
something
is owed to
him/her

Rationalization

Suddenly appear to be buying more material items

Starts to carry unusual amounts of cash

Creditors/Bill collectors show up at work or call frequently

Becomes territorial over their area of responsibility

Won't take vacation or sick time

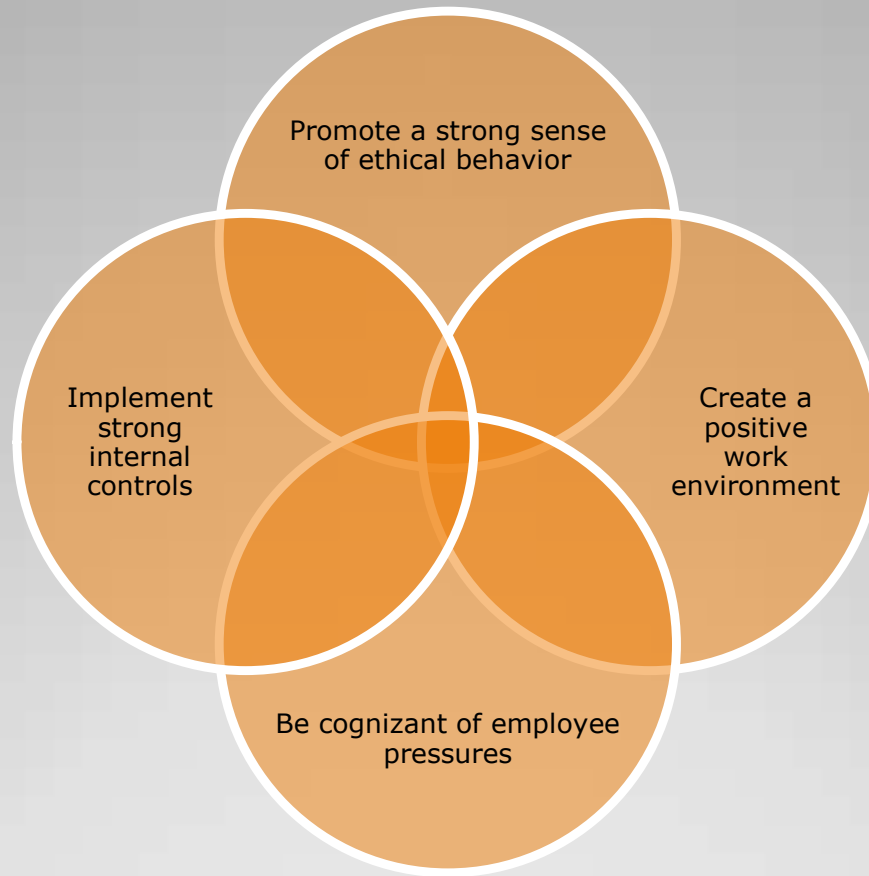
Changes in Behavior

Starts coming in
early or working late

Works unneeded
overtime

Exhibits signs of a drug
or gambling addiction

Changes in Behavior



What can be done?

The purpose of effective internal controls is to keep honest people honest by removing the "opportunity" factor of the fraud triangle

What can be done?



Questions??