

# **Fraud Awareness**

## **and the Importance of Establishing an Anti-Fraud Culture**

**Presented By: The Bank of Guam AML and Fraud Investigation  
Division  
September 14, 2016**

# Objectives

- ☐ Attribute to The Association of Certified Fraud Examiners (ACFE)
- ☐ Fraud 101
- ☐ The Fraud Triangle
- ☐ Fraud Risk Management
- ☐ Focus: How Management can prevent Fraud in the Workplace and establish an anti-fraud Culture

# How Scammer-Savvy are You?

# Test your Fraud Intelligence

## Question 1



The annual impact of global fraud exceeds:

a. \$100 million

b. \$500 million

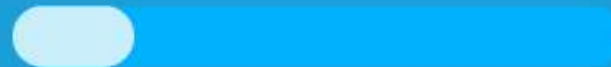
c. \$1 trillion

d. \$1 billion

NEXT

# Test your Fraud Intelligence

## Question 2



This is the name for the type of fraud where investors are paid returns out of funds from earlier investors, rather than from true profits.

a. A money tree

b. Krueger ruse

c. Ponzi scheme

d. The lottery

NEXT

# Test your Fraud Intelligence

## Question 3



The type of fraud that is commonly found with government benefits programs is:

a. Falsification of medical claims

b. Procurement Fraud

b. Procurement fraud

c. Auto theft rings

d. Identity theft

NEXT

# Test your Fraud Intelligence

## Question 4



For what reason did Congress pass the Securities Act of 1933?

a. To establish money market funds

b. To prevent fraudulent behaviors that contributed to the Stock Market crash of 1929

c. To provide full disclosure to the public in the interstate sale of securities

d. Both B and C

NEXT

# Test your Fraud Intelligence

## Question 5



The first state insurance fraud bureau was created in 1976 in which state?

a. Washington

b. North Carolina

c. South Carolina

d. Nevada

NEXT



# Test your Fraud Intelligence

## Question 6



In 1991, this technological development was a huge boon for fraudsters, who can use it to inflict significant damage without ever leaving their homes:

a. The Internet browser

b. The cell phone

c. The fax machine

d. The word processor

NEXT

# Test your Fraud Intelligence

## Question 7

In 1988, an undergraduate at Cornell University named Robert Tappan Morris became the first person convicted for introduction of an Internet virus. What was the virus called?

a. The Tappan Virus

b. Robert's Revenge

c. The Morris Worm

d. The Cornell Catastrophe

NEXT

# Test your Fraud Intelligence

## Question 8



The National Insurance Crime Bureau estimates that fraud costs policy holders this much each year in additional premium costs:

a. \$20,000-\$30,000

b. \$2,000-\$3,000

c. \$200-\$300

d. \$20-\$30

NEXT

# Test your Fraud Intelligence

## Question 9



The Internet Fraud Complaint Center was established in 2000 as a partnership between the National White Collar Crime Center (NWCCC) and this federal agency:

a. Department of Homeland Security

b. The CIA

c. Department of Defense

d. The FBI

NEXT

# Test your Fraud Intelligence

## Question 10

All of the following are examples of fraud that frequently impacts the financial services community except:

a. Hacking

b. Nigerian letter fraud

c. Synthetic identity fraud

d. Account takeover fraud

RESULT

# Are you a fraud expert?



# Fraud 101

1. What is Fraud?
2. What are the different types of Fraud?
  - ☐ Internal Fraud
    - ✓ occupational fraud
  - ☐ External fraud
    - ✓ broad range of schemes
3. Who commits Fraud?

# What is the



# ?

- ☐ All Organizations are susceptible to fraud.
- ☐ Companies with management that are least attentive to the potential for fraud .
- ☐ Fraud is a human problem not an accounting problem.



# Why do people commit fraud?



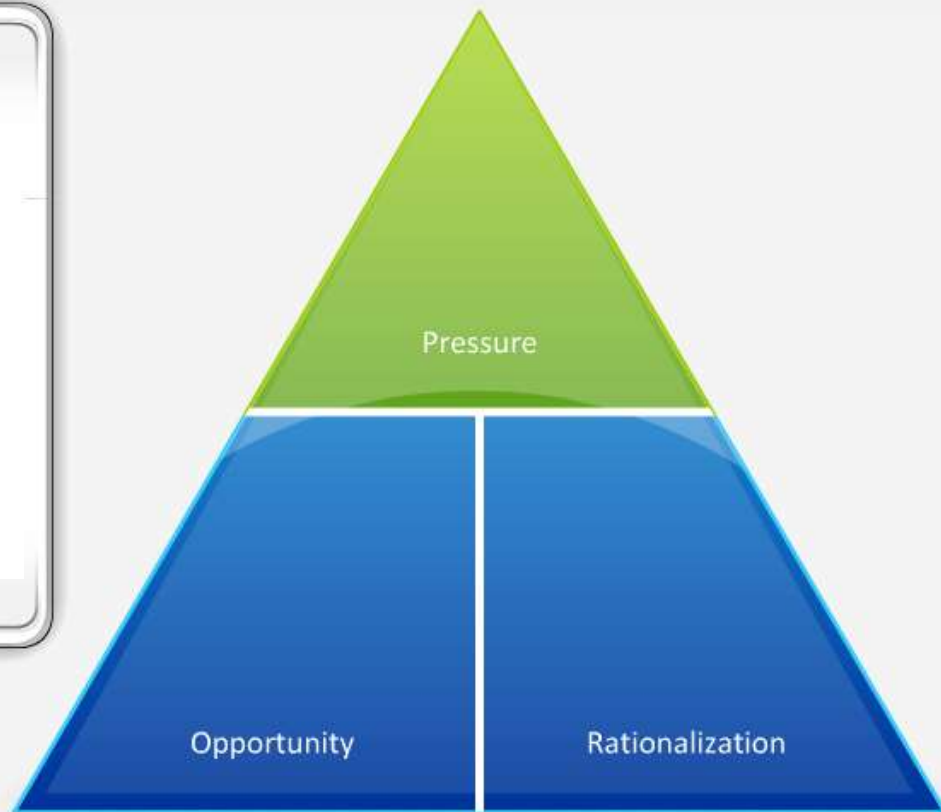
**Dr. Donald Cressey's  
Theory**

# The Fraud Triangle

## Introduction

According to Cressey, there are three factors that must be present at the same time in order for an ordinary person to commit fraud:

- Pressure
- Opportunity
- Rationalization



## The Fraud Triangle

### Pressure

The first leg of the fraud triangle represents *pressure*. This is what motivates the crime in the first place. The individual has some financial problem that he is unable to solve through legitimate means, so he begins to consider committing an illegal act, such as stealing cash or falsifying a financial statement, as a way to solve his problem. The financial problem can be personal (e.g., he's too deep in personal debt) or professional (e.g., his job or business is in jeopardy).



# Examples of Pressure

- Inability to pay one's bills
- Drug or gambling addiction
- The need to meet earnings to sustain investor confidence.
- The need to meet productivity targets at work.
- Desire for status symbols such as a bigger house, nicer car, etc.

## The Fraud Triangle

### Opportunity

The second leg of the fraud triangle is perceived *opportunity*, which defines the method by which the crime can be committed. The person must see some way he can use (abuse) his position of trust to solve his financial problem with a low perceived risk of getting caught.

It is also critical that the fraud perpetrator be able to solve his problem in secret. Many people commit white-collar crimes to maintain their social status. For instance, they might steal to



# Examples of Opportunity

Scenario: An employee who has access to blank checks

Will not commit due to recognition by another individual during reconciliation

VS

A person who has access to writing checks and reconciliation. Opportunity is then present for the fraud to happen.

## The Fraud Triangle

### Rationalization

The third leg of the fraud triangle is *rationalization*. The vast majority of fraudsters are first-time offenders with no criminal past; they do not view themselves as criminals. They see themselves as ordinary, honest people who are caught in a bad set of circumstances. Consequently, the fraudster must justify the crime to himself in a way that makes it an acceptable or justifiable act.

Common rationalizations fraudsters use include:



# Examples of Rationalization

The fraudster must justify the crime to himself in a way that makes it acceptable or justifiable.

- “I was entitled to the money.”
- “I had to steal to provide for my family.”
- “I was underpaid; my employer cheated me.”
- “My employer is dishonest to others and deserved to be fleeced.”
- “I was only borrowing the money.”



# Fraud Loss: \$400K

- ☐ Opportunity
- ☐ Pressure
- ☐ Rationalization
- ☐ Who committed the fraud?
- ☐ How was the fraud detected?



# Fraud loss: Imprisonment/ \$250,000 fine

- ☐ Opportunity
- ☐ Pressure
- ☐ Rationalization
- ☐ How was the fraud detected?

Last update: Wed, 07 Sep 2016 12am

Headlines: US Probation Office requests transfer of jurisdiction for ex-convict

**Marianas Variety**  
MICRONESIA'S LEADING NEWSPAPER SINCE 1972

TUESDAY, SEPTEMBER 6, 2016

★ CNMI REGIONAL NEWS COMMUNITY BULLETINS VARIETY FEATURES ADVERTISING CONTACT US GU

## Sentencing sought in marriage fraud case on Guam

19 Jan 2016  
By Jacqueline Perry Guzman - jackie@postguam.com - For Variety

Share Like Tweet Share

**HAGATÑA** — The federal government, through Assistant U.S. Attorney Rosetta San Nicolas, has filed a motion to vacate a status hearing and set sentencing for Bruce Lee Cruz Aguon.

Aguon, 30, entered into a plea agreement with the court on Oct. 15, 2015 and admitted to committing conspiracy to commit marriage fraud.

The motion, dated Jan. 15, stated that the parties request the court to calendar the sentencing date at least 90 days from the date of the motion in order for the presentence report to be completed.

According to court documents, Aguon and Lian Liu, from Aug 1, 2014 to April 30, 2015, agreed to enter into a fraudulent marriage to enable Liu to evade a provision of the immigration laws. Liu agreed to pay Aguon \$25,000 in exchange for the fraudulent marriage.

Aguon married Liu at a civil service at the Mangilao mayor's office on Aug. 26, 2014 and on Sept. 30, 2014 Aguon filed a petition for alien relative with U.S. Citizenship and Immigration Services.

**ADD A COMMENT**

3 Comments Marianas Variety Login

Recommend Share Sort by Newest

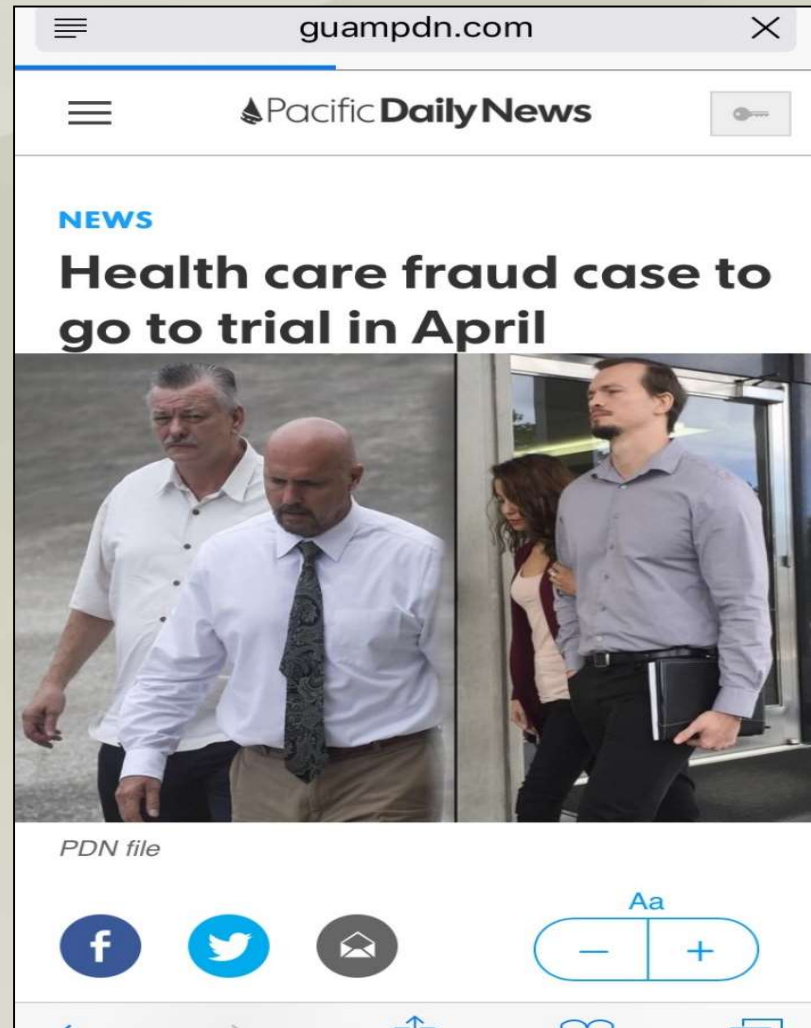
Join the discussion...

**M.SIKEN.TIRED!**  
8 months ago

Tsk tsk tsk...makes me wonder how in the world it got approved in the first place? Should have done a background check before finalizing the license. Shady people all over the place, wow! If I had my way; divorce rates (meaning prices) should go up...like, way up...somewhere in the six figures. If you want to file a divorce pay

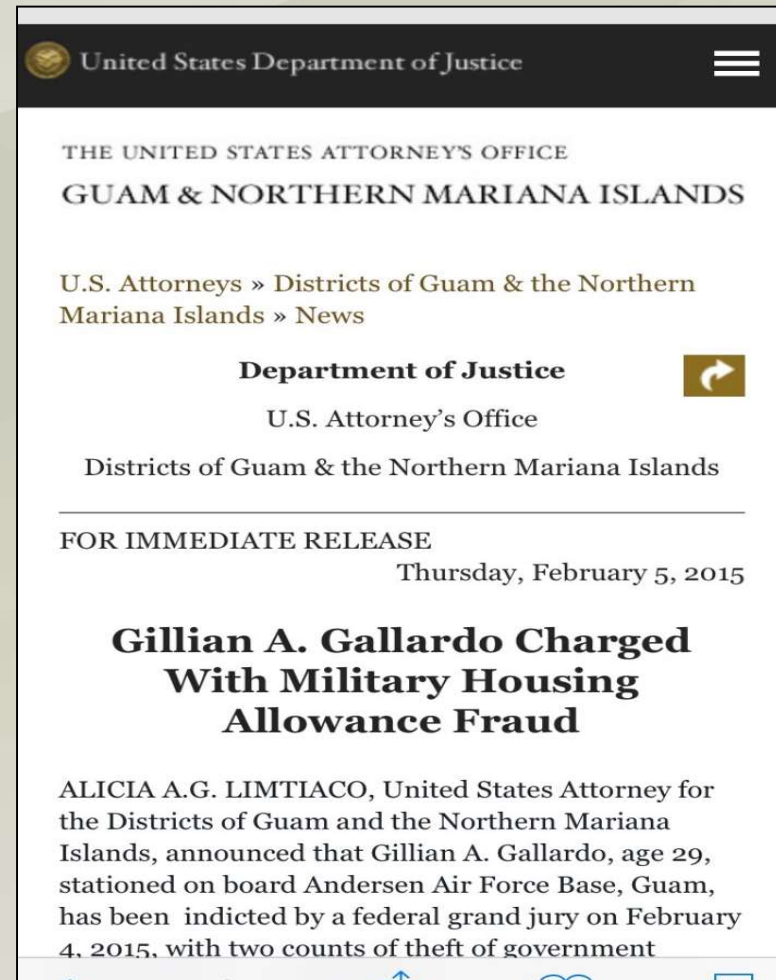
# Fraud Loss: \$32M

- ☐ Opportunity
- ☐ Pressure
- ☐ Rationalization
- ☐ Who committed the fraud?
- ☐ How was the fraud detected?



# Fraud Loss: \$22,000.00

- ☐ Opportunity
- ☐ Pressure
- ☐ Rationalization
- ☐ How was the fraud detected?



# The BIG Picture

- Commonality
  - Weak controls = Weak Risk Management
- What is Fraud risk management?

# Developing a Fraud Risk Assessment

- Dynamic and interactive
- The basis for determining how risk will be managed.



# Fraud Risk Management

- A. Fraud risk management programs must address fraud **before**, **during**, and **after** it occurs.
- B. Incorporates policies and procedures designed to
  - ❖ Prevent fraud
  - ❖ Detect fraud
  - ❖ Respond to identified fraud



# Preventing Fraud



## ❖ How do we prevent fraud?

### ✓ Mitigate the risk

- ✓ Design policies and procedures based on risks identified in the risk assessment
- ✓ Training
- ✓ Communication to employees regarding job expectations

## ❖ Example



# Detecting Fraud



- ❖ How do we detect fraud?
  - ✓ Create controls to identify fraud occurrences as soon as possible which will limit the damage.
- ❖ Example

# Responding to



- ❖ How do we respond to identified fraud?
  - ✓ Investigate
  - ✓ Punish the perpetrator, whether through employment sanctions or legal action
  - ✓ Remediate control weaknesses
  - ✓ Rebuild stakeholders' confidence in the organization

## 5,300 Wells Fargo employees fired over 2 million phony accounts

1. What did they do?
  - Set up of fake bank and credit card accounts to meet sales targets
2. Who did it impact?
3. What did it cost?
  - \$185 million in fines
4. All businesses are susceptible to fraud!



# The TONE AT THE TOP

- Ethical atmosphere that is created in the workplace by the organization's leadership.



- ACFE video **Fraud and the Tone at the Top**
- Designed to help US business community provide corporate fraud prevention training to personnel at all levels.

# CREATE AND MAINTAIN A TRUE ETHICAL CLIMATE

1. Communicate what is expected
  - ✓ Code of ethics
  - ✓ Training Program
2. Lead by example
  - ✓ Lead with integrity
  - ✓ Walk the Walk
3. Provide a safe mechanism for reporting violations
4. Reward Integrity
  - ✓ Create incentive programs to encourage ethical behavior

# Report to the Nations on Occupational Fraud

1. 2016 Global Fraud Study
  - Attribution: *2016 Report to the Nations on Occupational Fraud and Abuse*. Copyright 2016 by the Association of Certified Fraud Examiners, Inc
2. 2,410 cases of occupational fraud in 114 countries throughout the world.
  - Methodology

# Geographical Location of Victims

**Figure 1:** Geographical Location of Victim Organizations

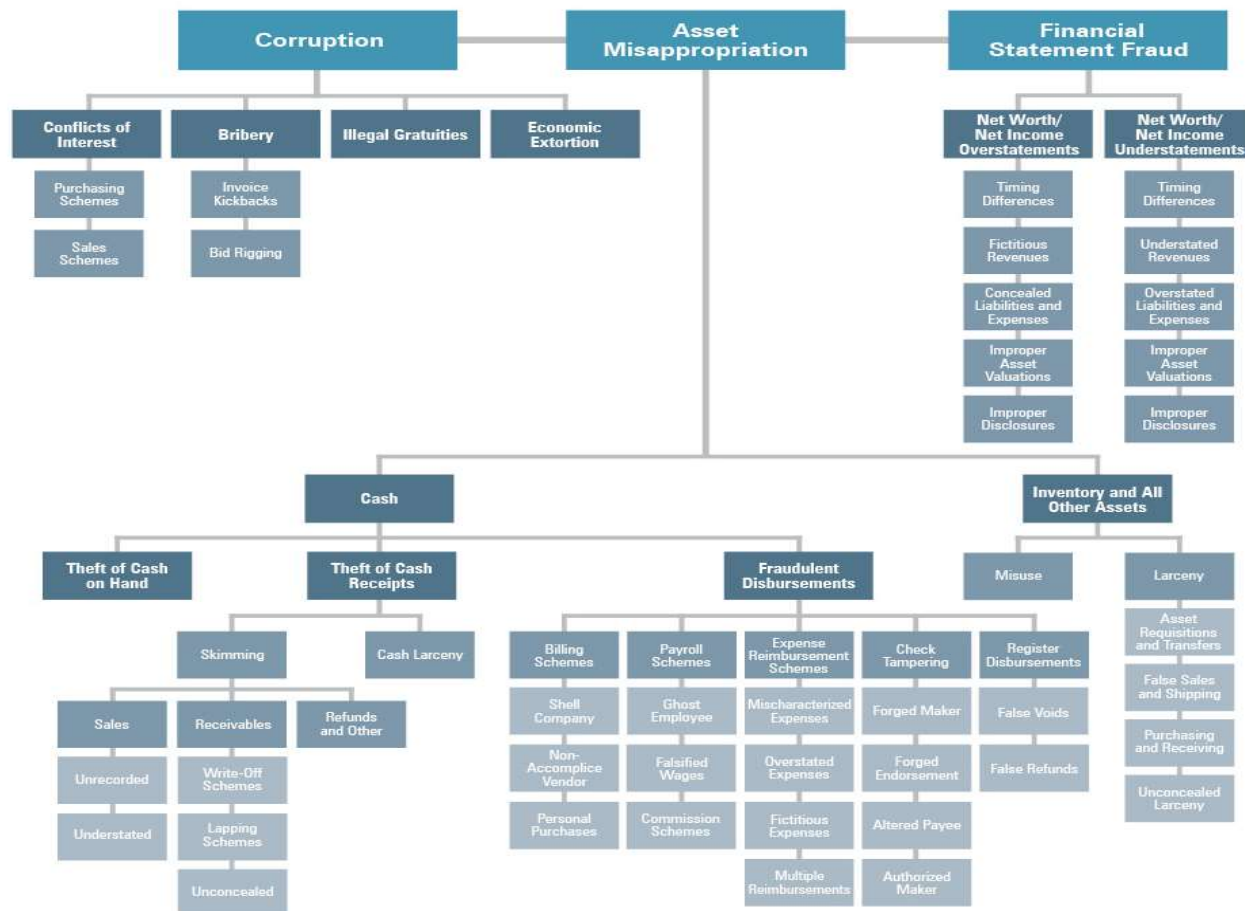
Region	Number of Cases	Percent of Cases	Median Loss (in U.S. dollars)
United States	1038	48.8%	\$120,000
Sub-Saharan Africa	285	13.4%	\$143,000
Asia-Pacific	221	10.4%	\$245,000
Latin America and the Caribbean	112	5.3%	\$174,000
Western Europe	110	5.2%	\$263,000
Eastern Europe and Western/Central Asia	98	4.6%	\$200,000
Southern Asia	98	4.6%	\$100,000
Canada	86	4.0%	\$154,000
Middle East and North Africa	79	3.7%	\$275,000

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Analysis period: January 2014 to October 2015

# How Occupational Fraud Is Committed

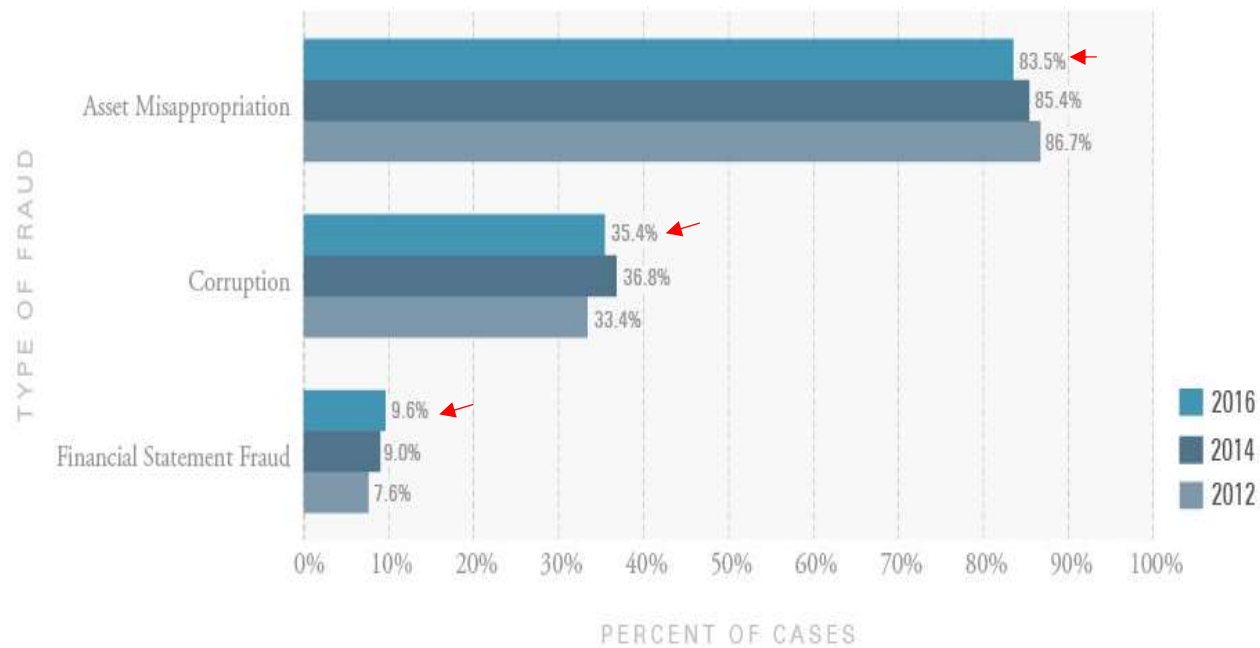
**Figure 3:** Occupational Fraud and Abuse Classification System (Fraud Tree)





# Occupational Fraud by Category

**Figure 4:** Occupational Frauds by Category—Frequency



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# Scheme Types by Region

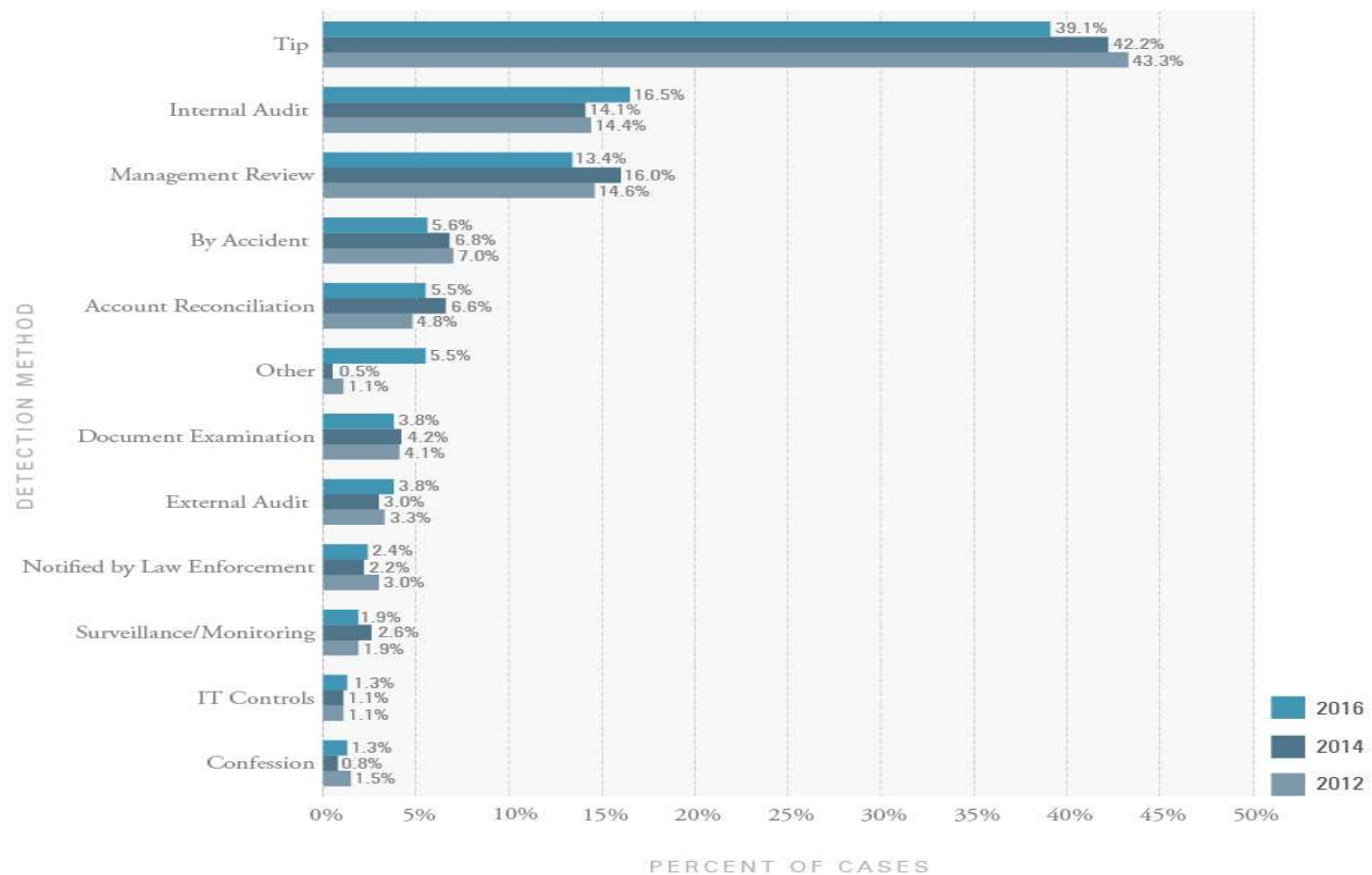
**Figure 8:** Scheme Types by Region—United States

Scheme	Number of Cases	Percent of Cases
Billing	289	27.8%
Corruption	258	24.9%
Non-Cash	174	16.8%
Skimming	167	16.1%
Expense Reimbursements	164	15.8%
Check Tampering	154	14.8%
Payroll	131	12.6%
Cash on Hand	125	12.0%
Cash Larceny	102	9.8%
Financial Statement Fraud	93	9.0%
Register Disbursements	29	2.8%

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# Initial Detection of Occupational Frauds

**Figure 21:** Initial Detection of Occupational Frauds



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# Detection Method by Region

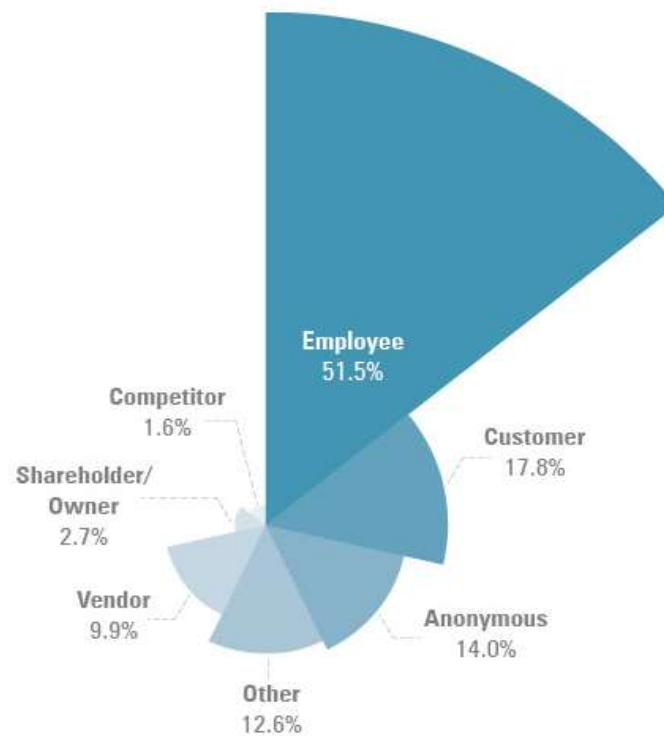
**Figure 23:** Detection Method by Region—United States

Detection Method	Percent of Cases
Tip	37.0%
Management Review	14.3%
Internal Audit	14.1%
By Accident	7.2%
Account Reconciliation	6.1%
Other	5.5%
Document Examination	4.8%
External Audit	4.0%
Notified by Law Enforcement	2.5%
Surveillance/Monitoring	1.9%
IT Controls	1.5%
Confession	1.2%

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# Source of Tips

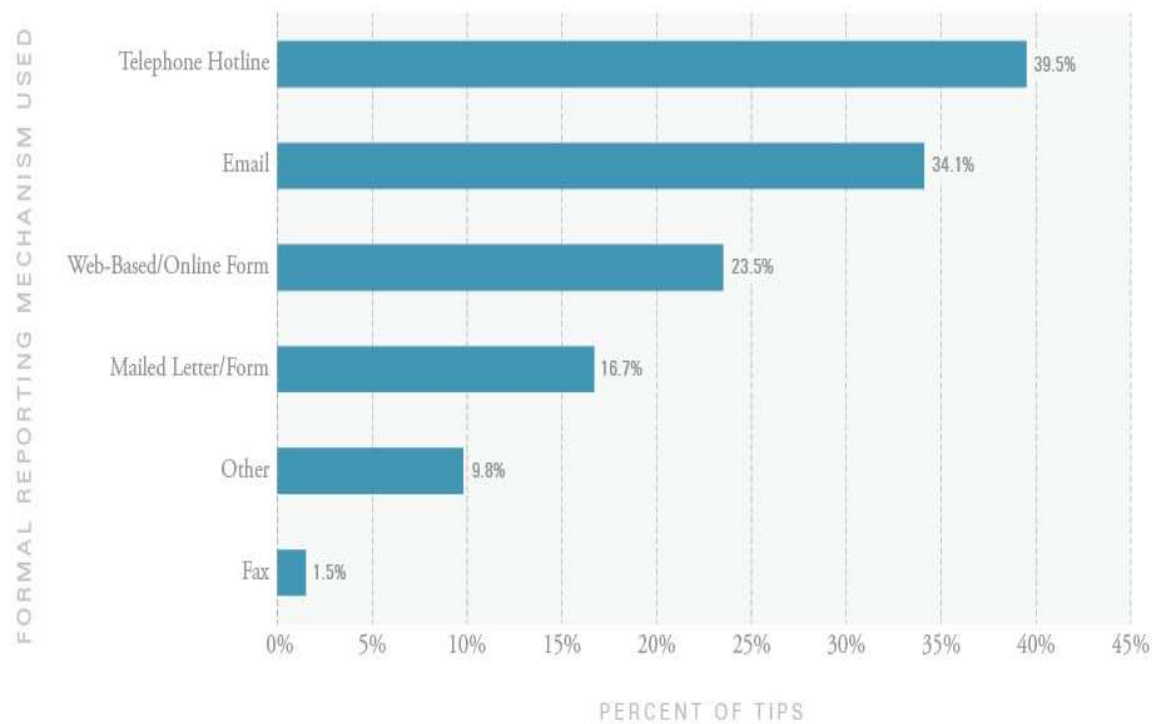
**Figure 33:** Source of Tips



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# Formal Reporting Mechanism Used by Whistleblower

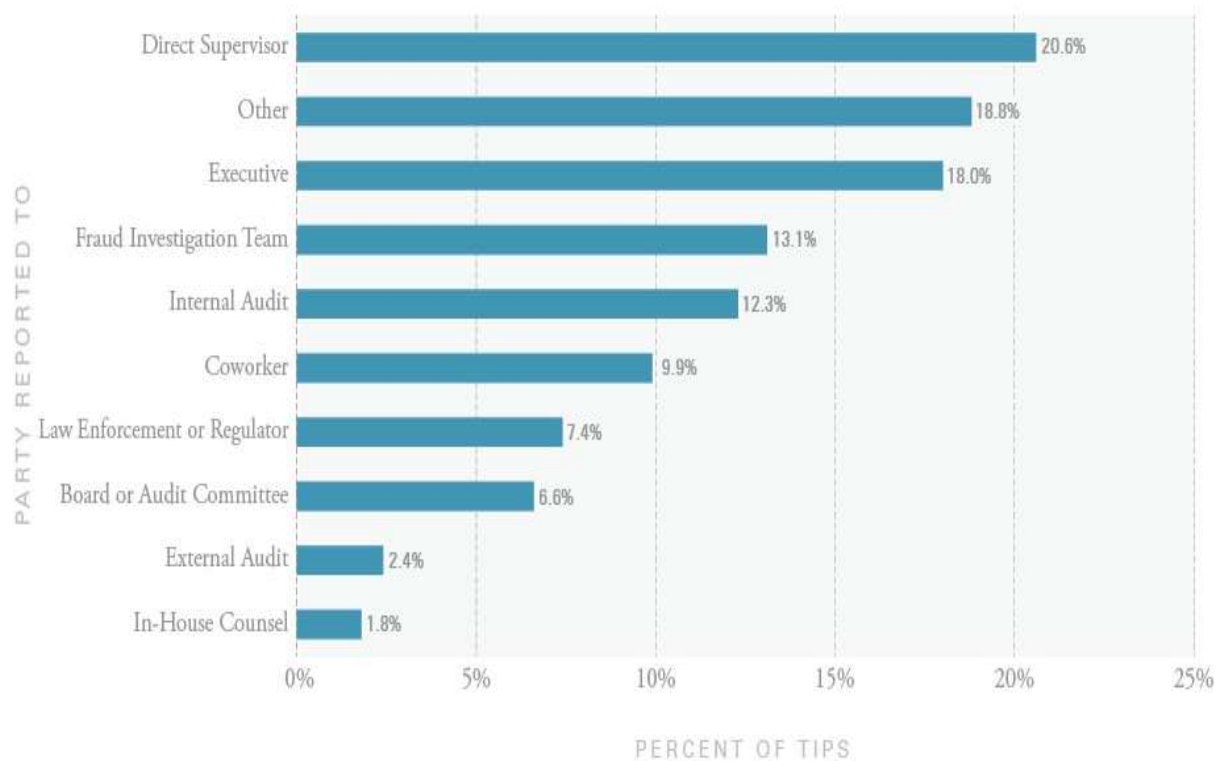
Figure 35: Formal Reporting Mechanism Used by Whistleblower



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# Party to Whom Whistleblower Initially Reported

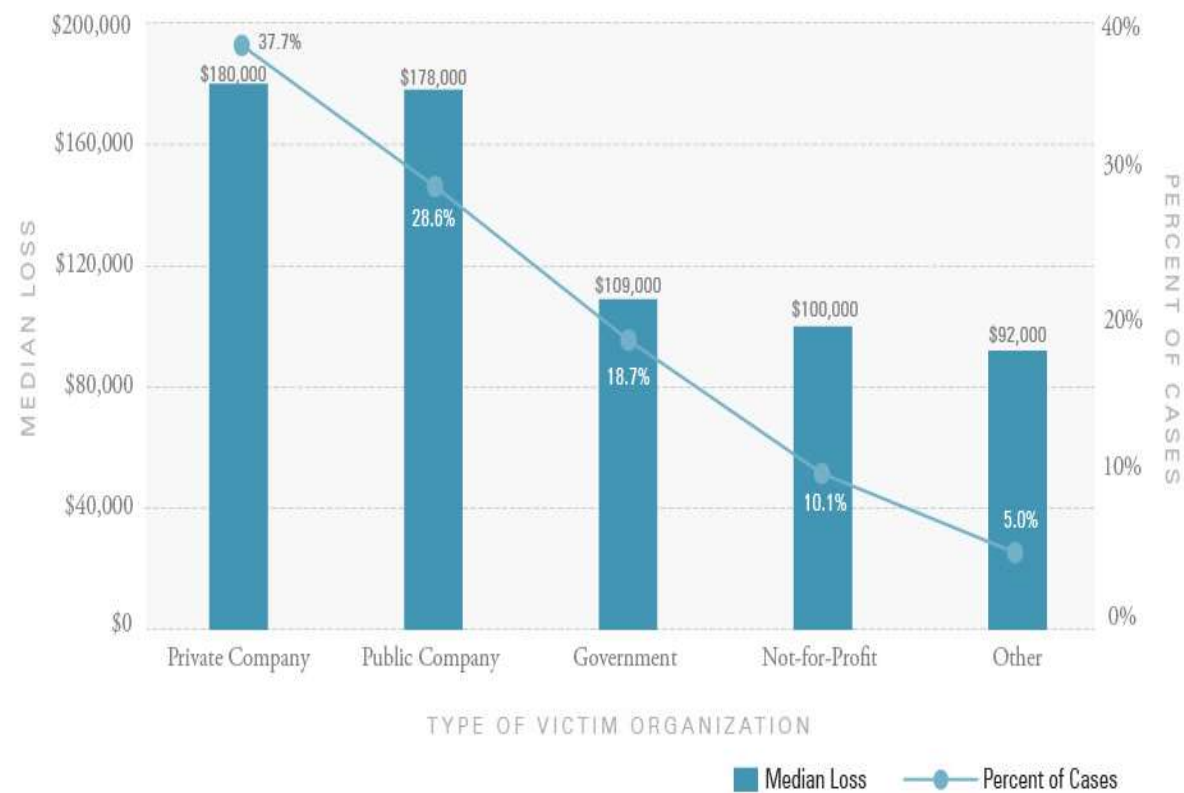
Figure 36: Party to Whom Whistleblower Initially Reported



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# Type of Organization

Figure 38: Type of Victim Organization—Frequency and Median Loss

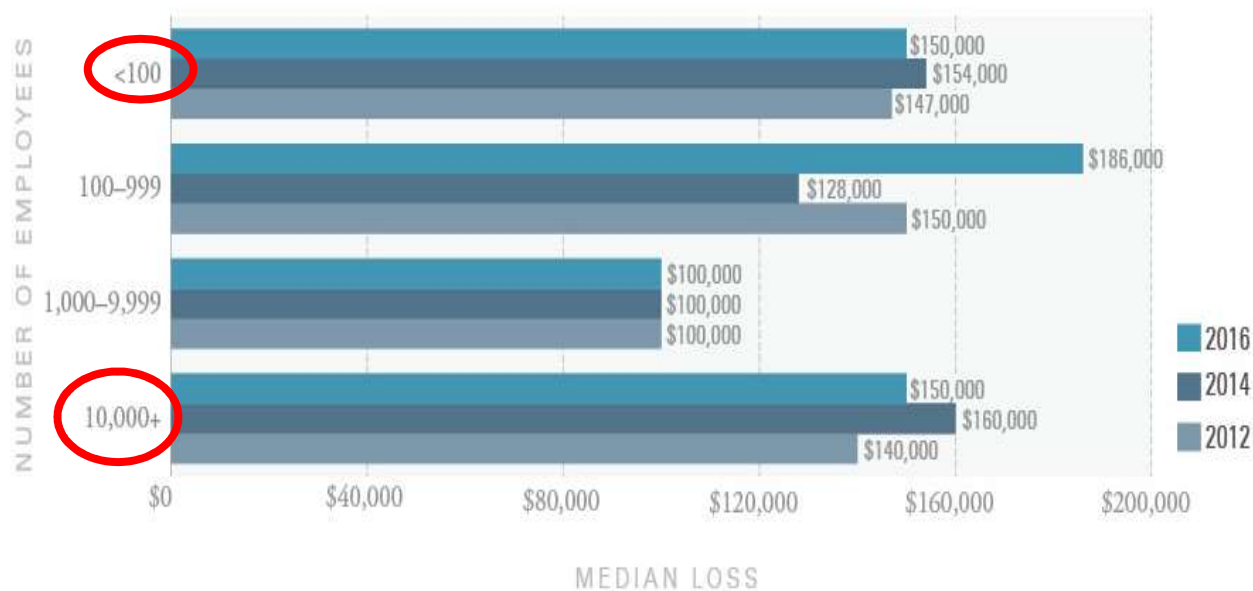


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# Size of Organization

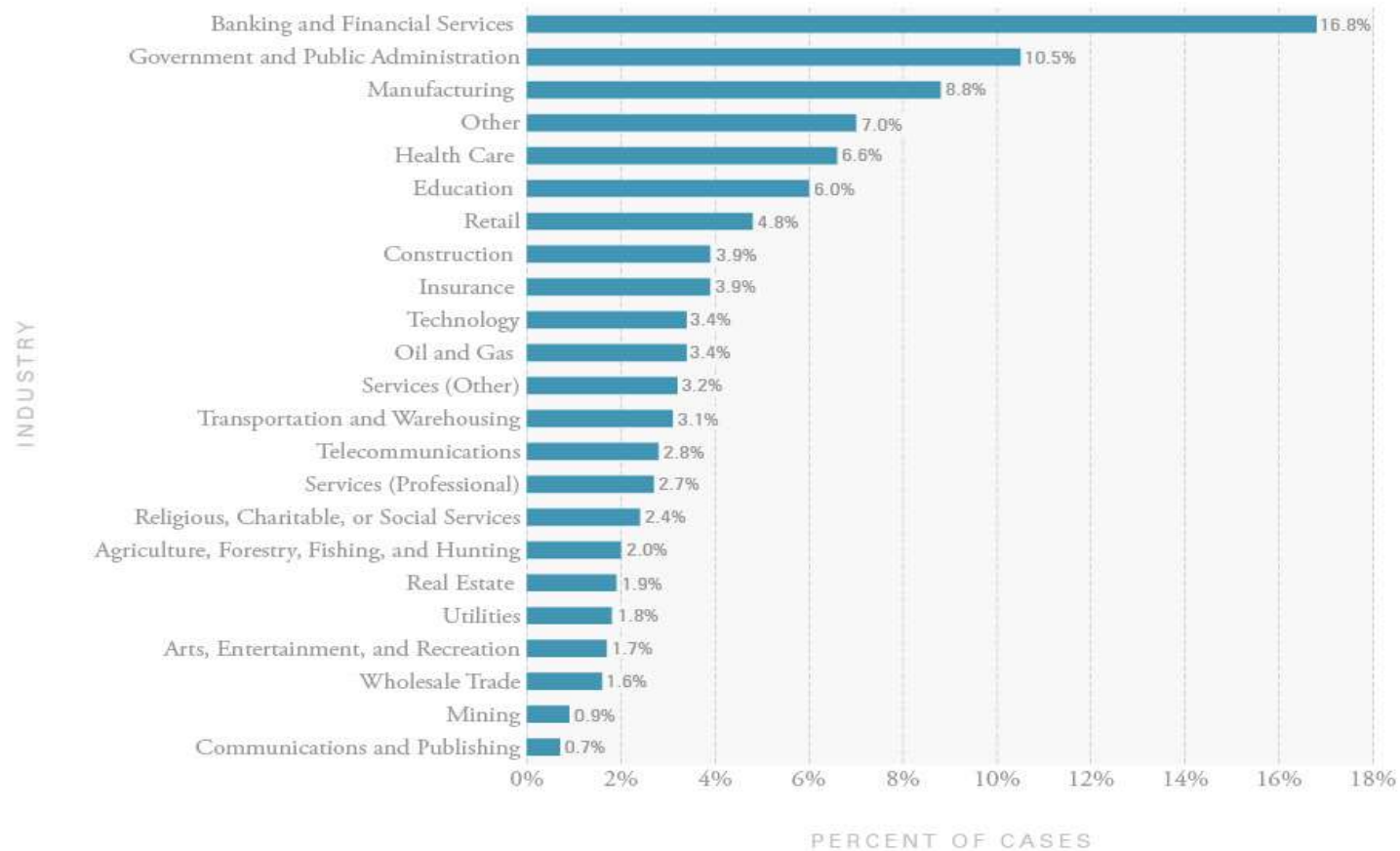
**Figure 41:** Size of Victim Organization—Median Loss



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# Industry of Organization

Figure 43: Industry of Victim Organizations



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# Anti-Fraud Controls by Region

**Figure 50:** Frequency of Anti-Fraud Controls—United States

Control	Percent of Cases
Code of Conduct	74.6%
External Audit of Financial Statements	74.2%
Employee Support Programs	66.0%
Management Certification of Financial Statements	64.1%
Internal Audit Department	61.4%
External Audit of Internal Controls over Financial Reporting	59.8%
Management Review	57.3%
Hotline	54.5%
Independent Audit Committee	53.8%
Fraud Training for Managers/Executives	50.5%
Fraud Training for Employees	49.3%
Anti-Fraud Policy	45.2%
Formal Fraud Risk Assessments	36.5%
Dedicated Fraud Department, Function, or Team	36.4%
Proactive Data Monitoring/Analysis	35.5%
Surprise Audits	31.8%
Job Rotation/Mandatory Vacation	16.1%
Rewards for Whistleblowers	12.7%

# Effectiveness of Controls

**Figure 59:** Median Loss Based on Presence of Anti-Fraud Controls

Control	Percent of Cases	Control in Place	Control Not in Place	Percent Reduction
Proactive Data Monitoring/Analysis	36.7%	\$92,000	\$200,000	54.0%
Management Review	64.7%	\$100,000	\$200,000	50.0%
Hotline	60.1%	\$100,000	\$200,000	50.0%
Management Certification of Financial Statements	71.9%	\$104,000	\$205,000	49.3%
Surprise Audits	37.8%	\$100,000	\$195,000	48.7%
Dedicated Fraud Department, Function, or Team	41.2%	\$100,000	\$192,000	47.9%
Job Rotation/Mandatory Vacation	19.4%	\$89,000	\$170,000	47.6%
External Audit of Internal Controls over Financial Reporting	67.6%	\$105,000	\$200,000	47.5%
Fraud Training for Managers/Executives	51.3%	\$100,000	\$190,000	47.4%
Fraud Training for Employees	51.6%	\$100,000	\$188,000	46.8%
Formal Fraud Risk Assessments	39.3%	\$100,000	\$187,000	46.5%
Employee Support Programs	56.1%	\$100,000	\$183,000	45.4%
Anti-Fraud Policy	49.6%	\$100,000	\$175,000	42.9%
Internal Audit Department	73.7%	\$123,000	\$215,000	42.8%
Code of Conduct	81.1%	\$120,000	\$200,000	40.0%
Rewards for Whistleblowers	12.1%	\$100,000	\$163,000	38.7%
Independent Audit Committee	62.5%	\$114,000	\$180,000	36.7%
External Audit of Financial Statements	81.7%	\$150,000	\$175,000	14.3%

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# Background Checks

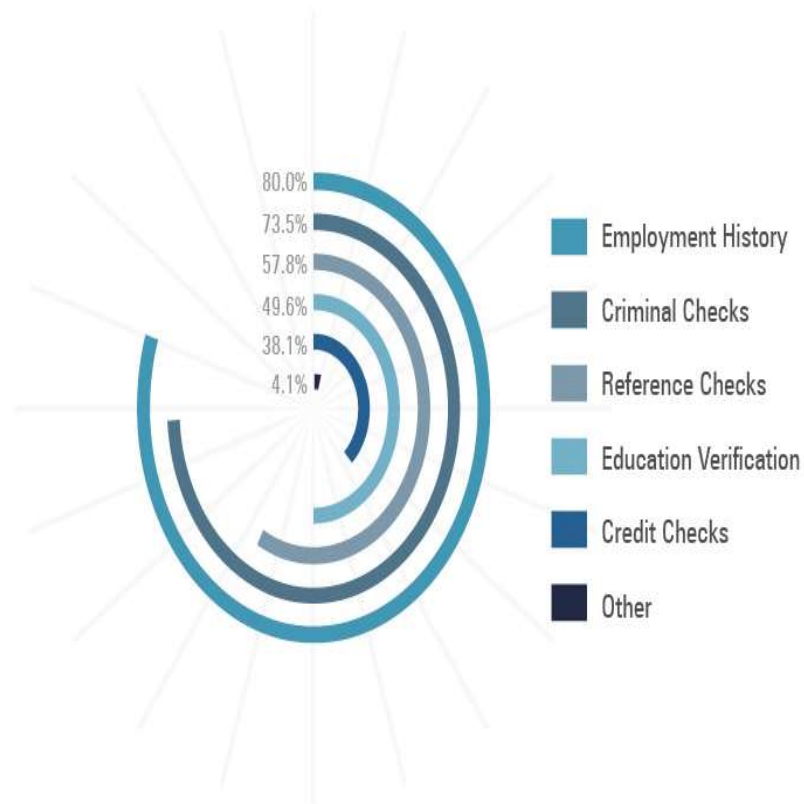
**Figure 61:** Background Check Run on Perpetrator Before Being Hired



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# Background Checks

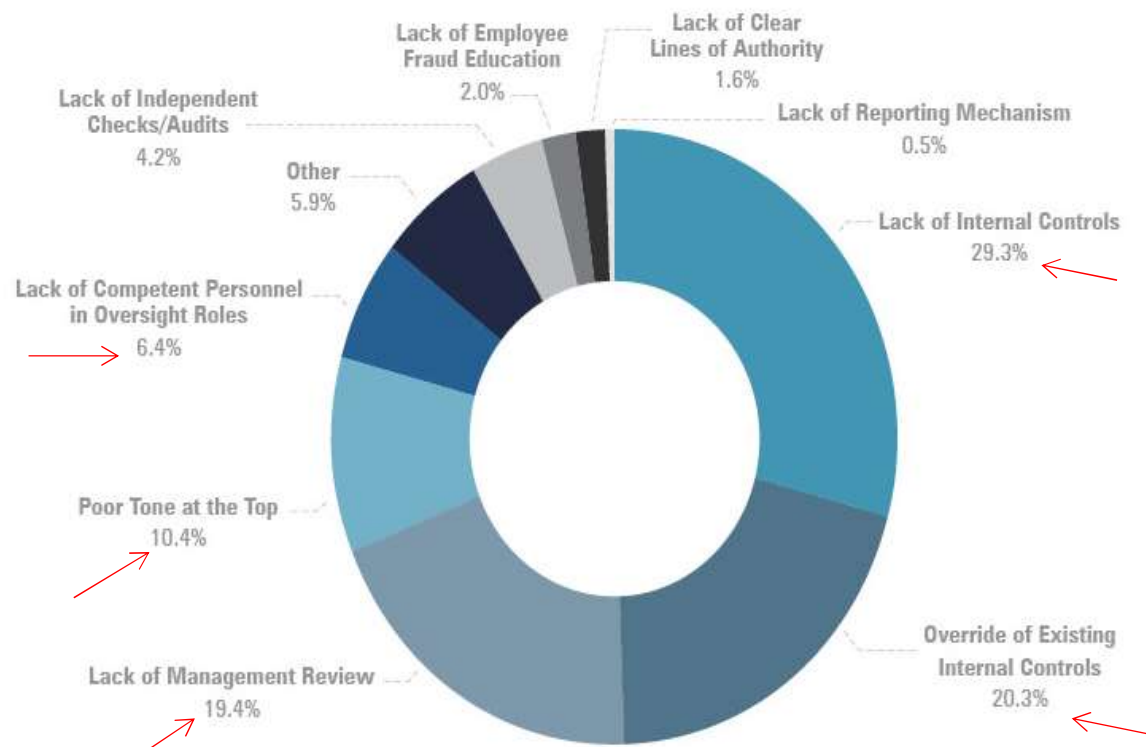
**Figure 62:** Type(s) of Background Checks Run on Perpetrator Before Being Hired



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# Internal Control Weaknesses That Contributed to Fraud

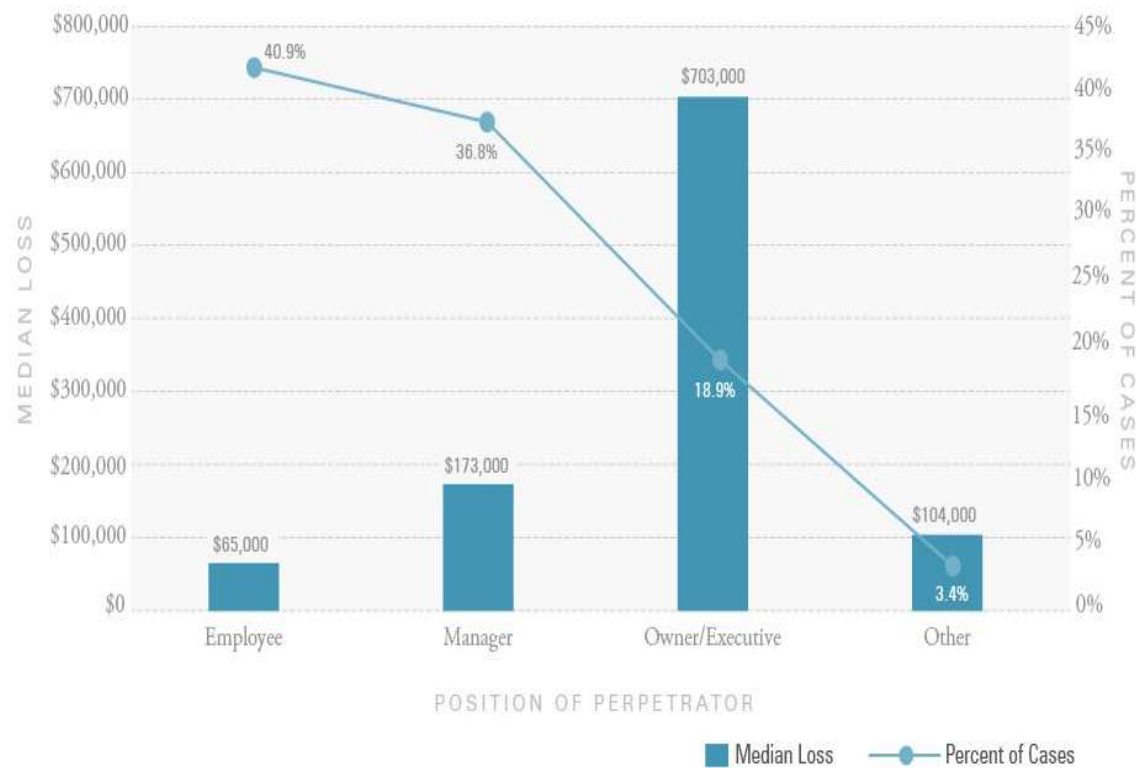
Figure 63: Primary Internal Control Weakness Observed by CFE



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# Perpetrator's Position

Figure 65: Position of Perpetrator—Frequency and Median Loss

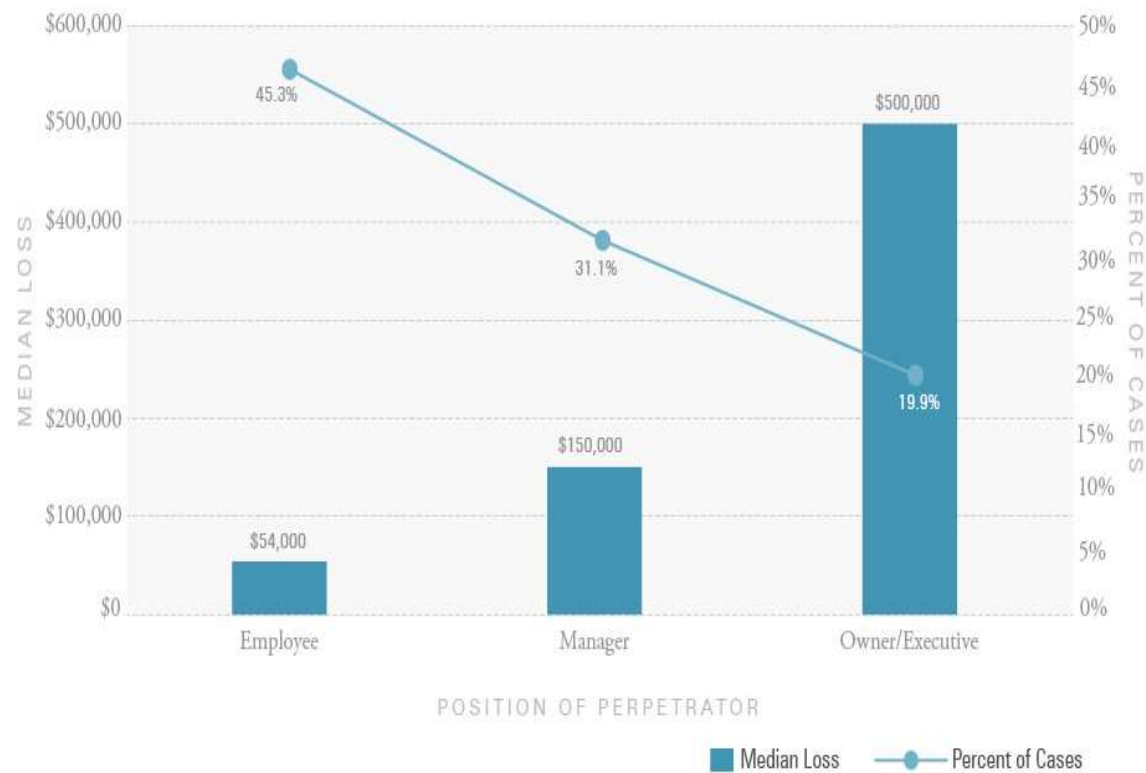


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# Position of Perpetrator Based on Region

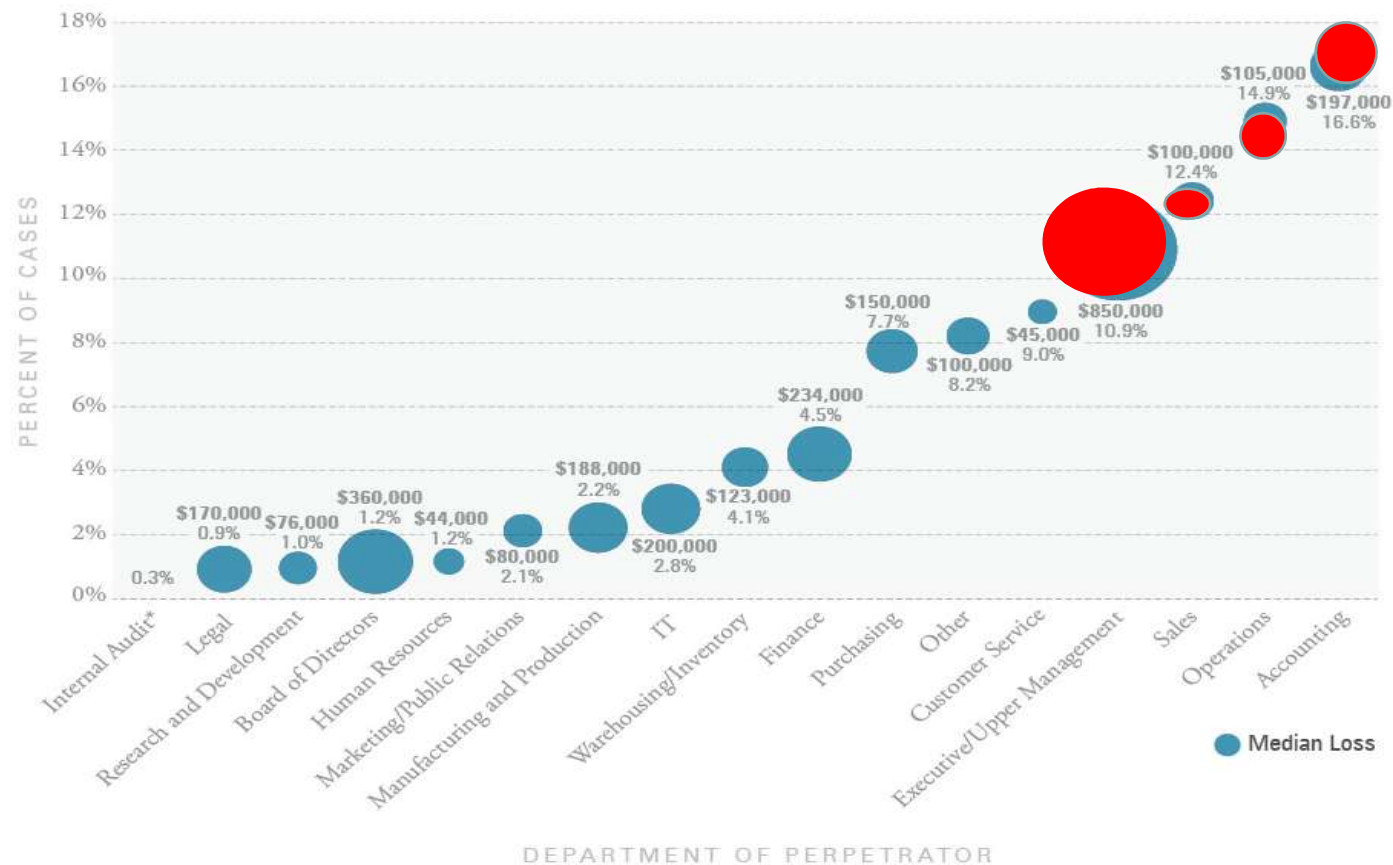
Figure 67: Frequency and Median Loss Based on Position of Perpetrator—United States



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# Perpetrator's Department

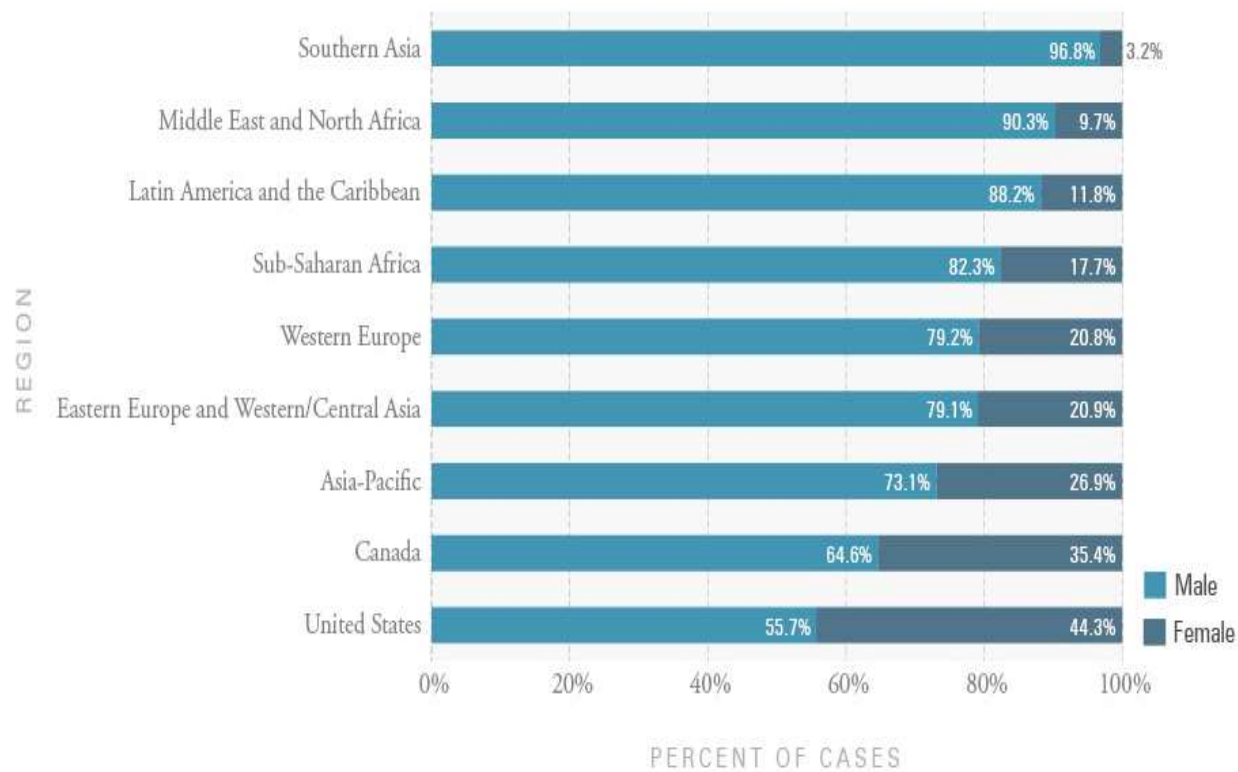
**Figure 77:** Department of Perpetrator—Frequency and Median Loss



\*Internal Audit category had insufficient responses for median loss calculation.

# Perpetrator's Gender Based on Region

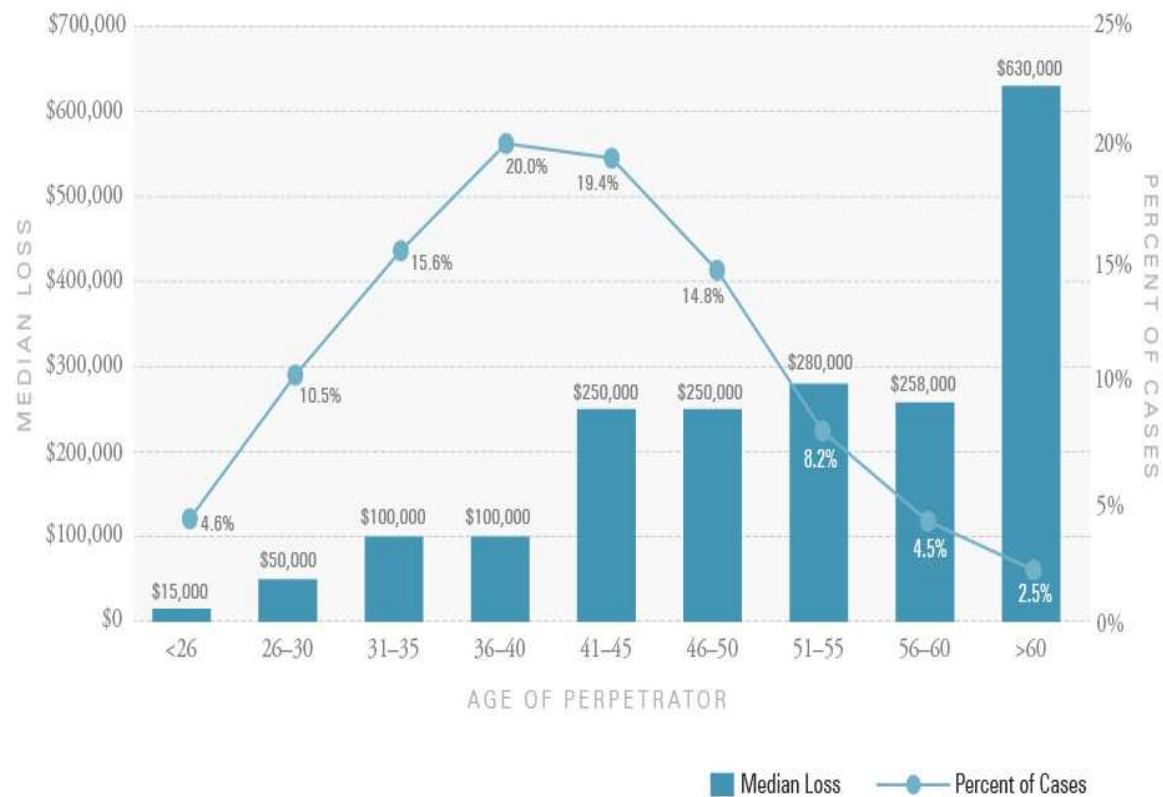
**Figure 80:** Gender of Perpetrator Based on Region



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# Perpetrator's Age

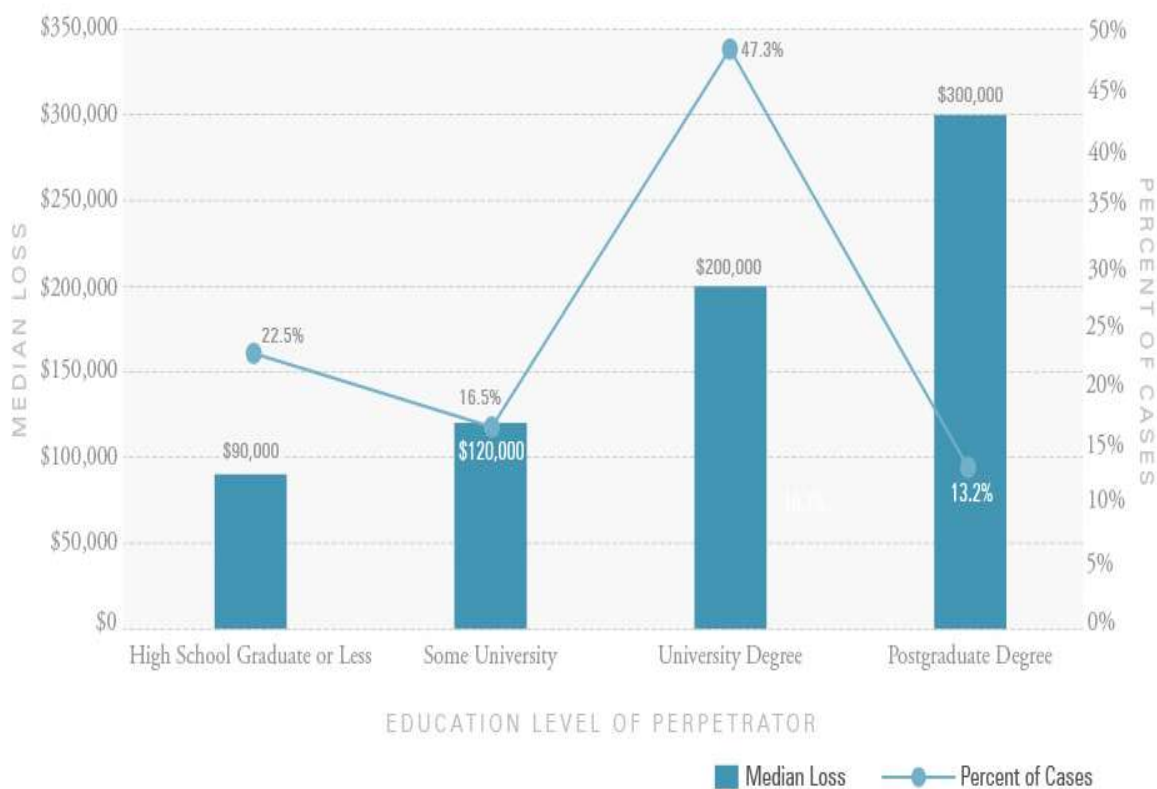
Figure 85: Age of Perpetrator—Frequency and Median Loss



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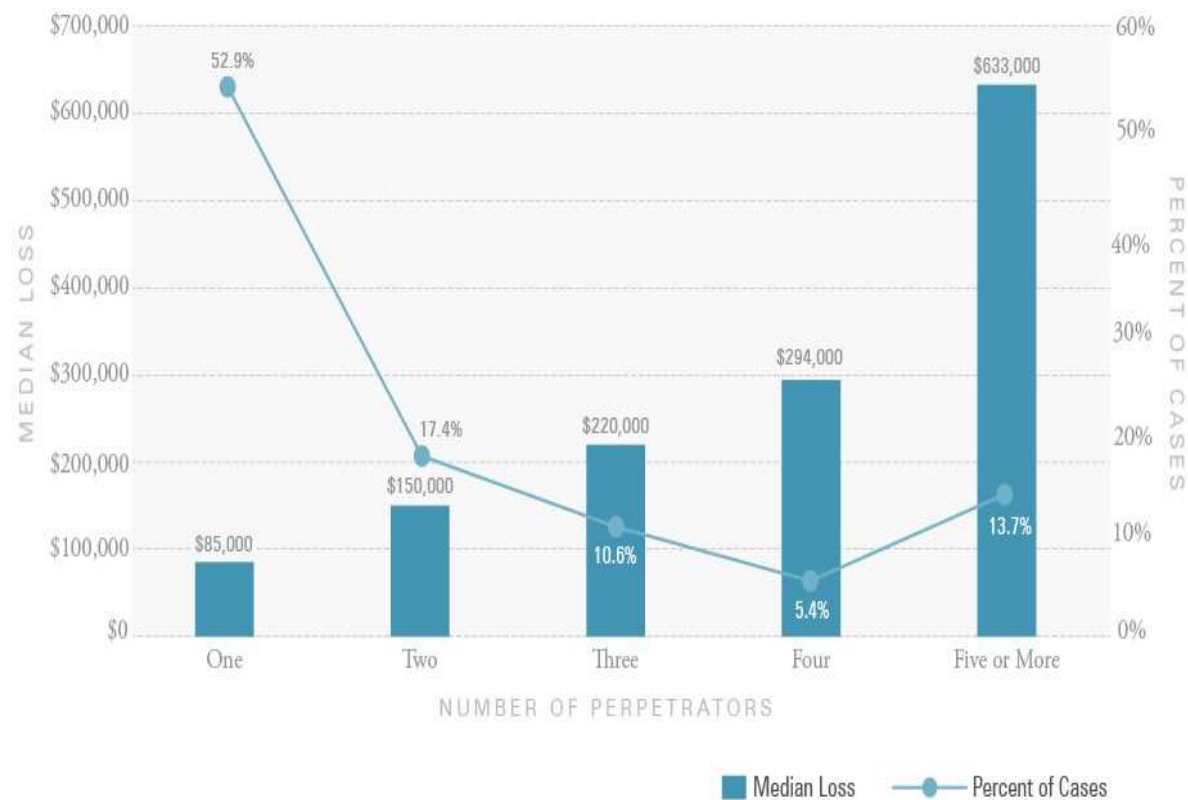
# Perpetrator's Education Level

Figure 86: Education Level of Perpetrator—Frequency and Median Loss



# The Impact of Collusion

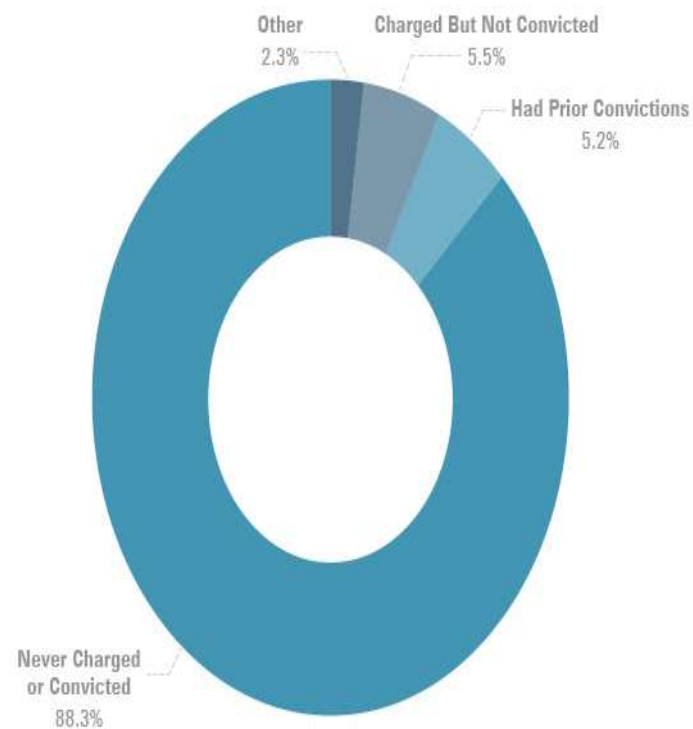
Figure 87: Number of Perpetrators—Frequency and Median Loss



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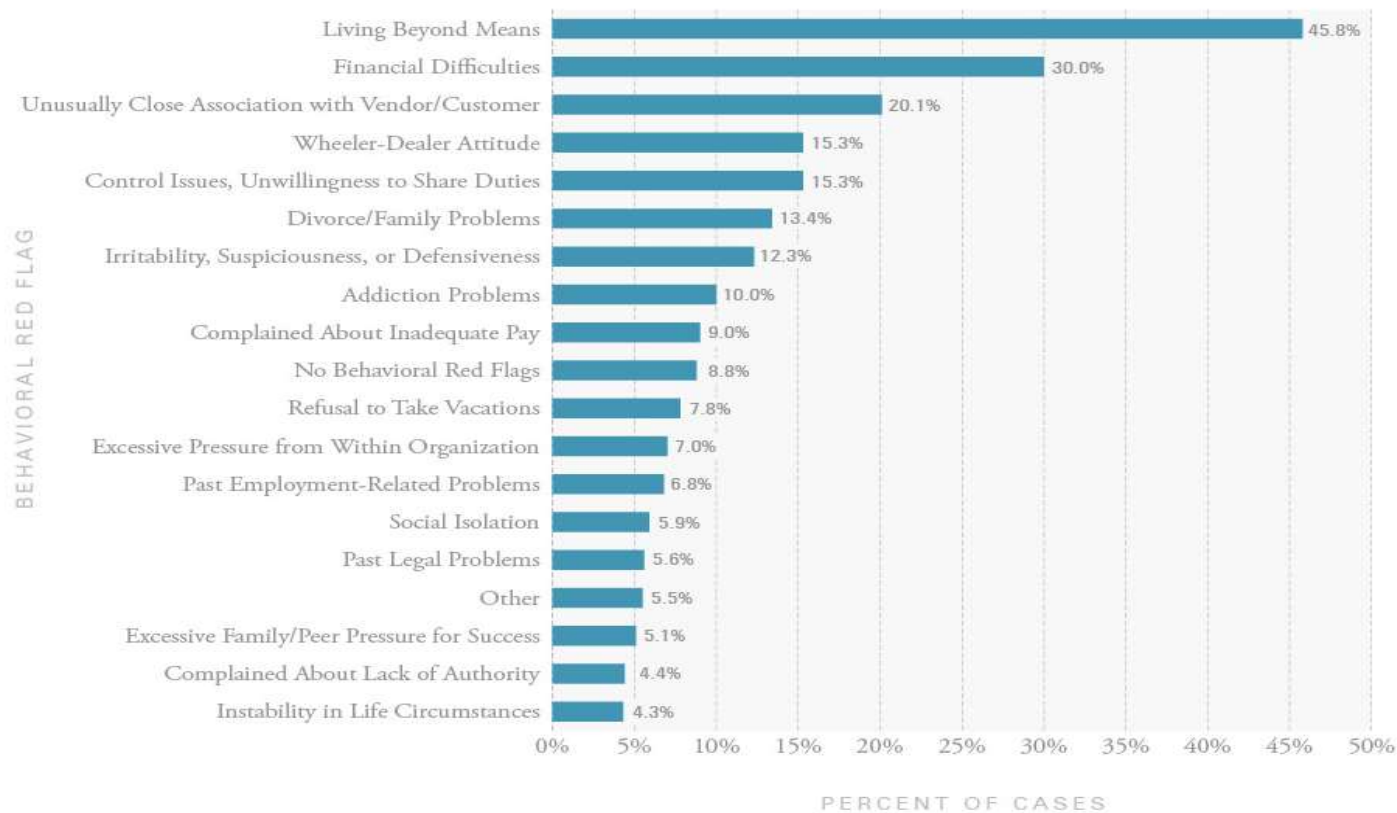
# Perpetrator's Criminal Background

**Figure 92:** Criminal Background of Perpetrator



# Behavioral Red Flags Displayed by Perpetrators

**Figure 94:** Behavioral Red Flags Displayed by Perpetrators

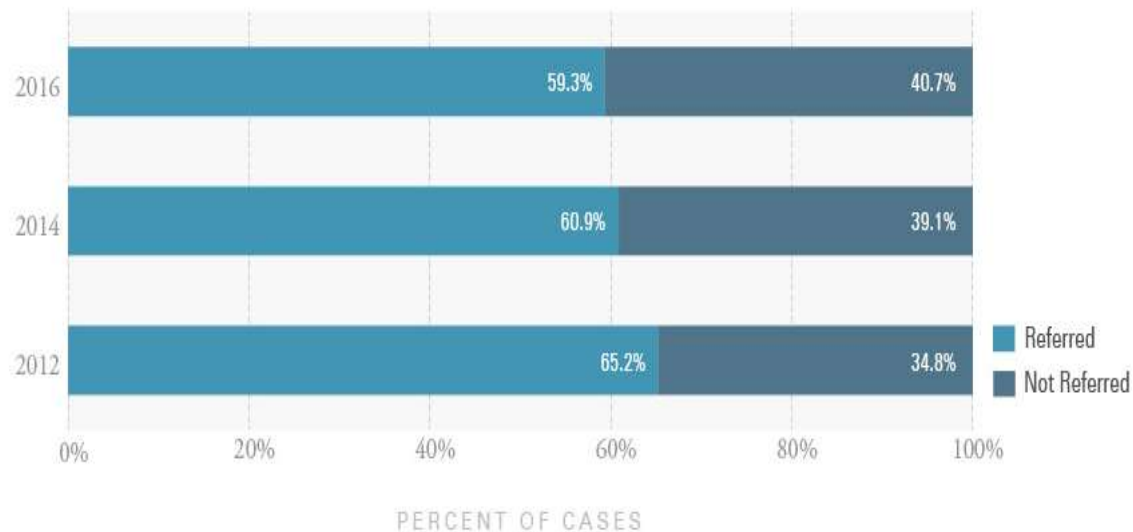


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# Criminal Prosecutions

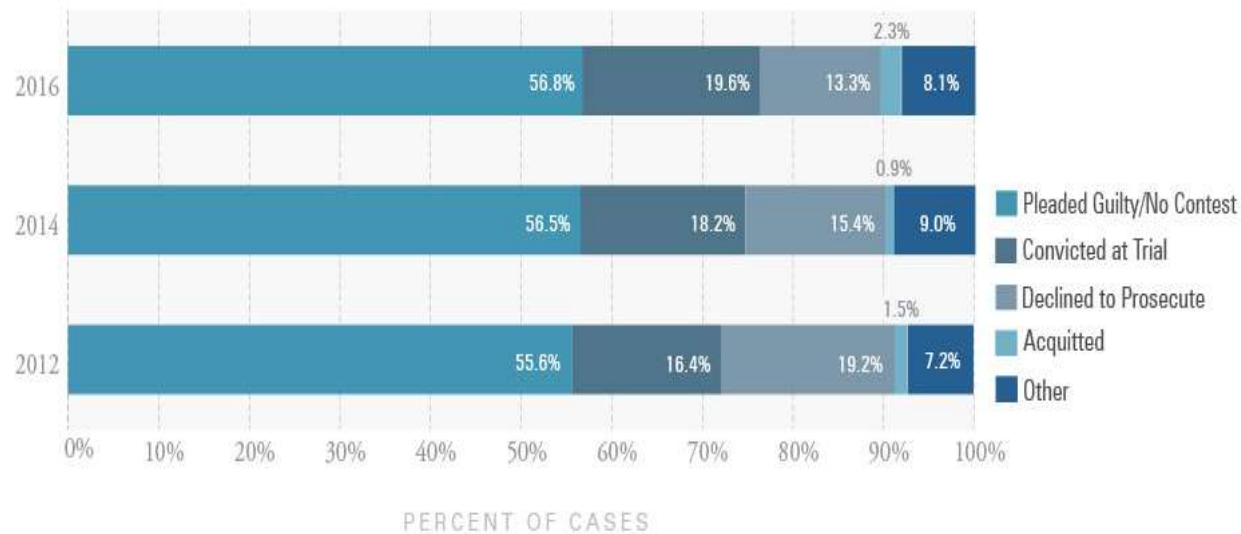
**Figure 100:** Cases Referred to Law Enforcement



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# Criminal Prosecutions

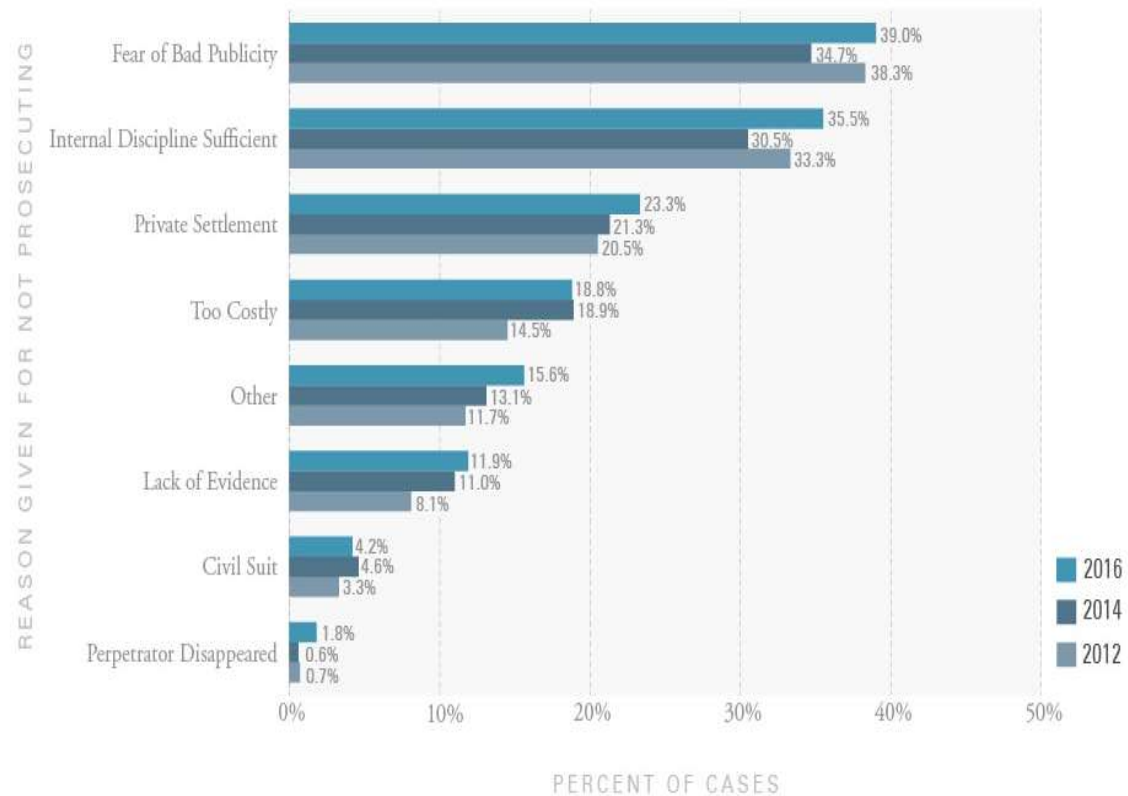
**Figure 101:** Results of Cases Referred to Law Enforcement



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# Criminal Prosecutions

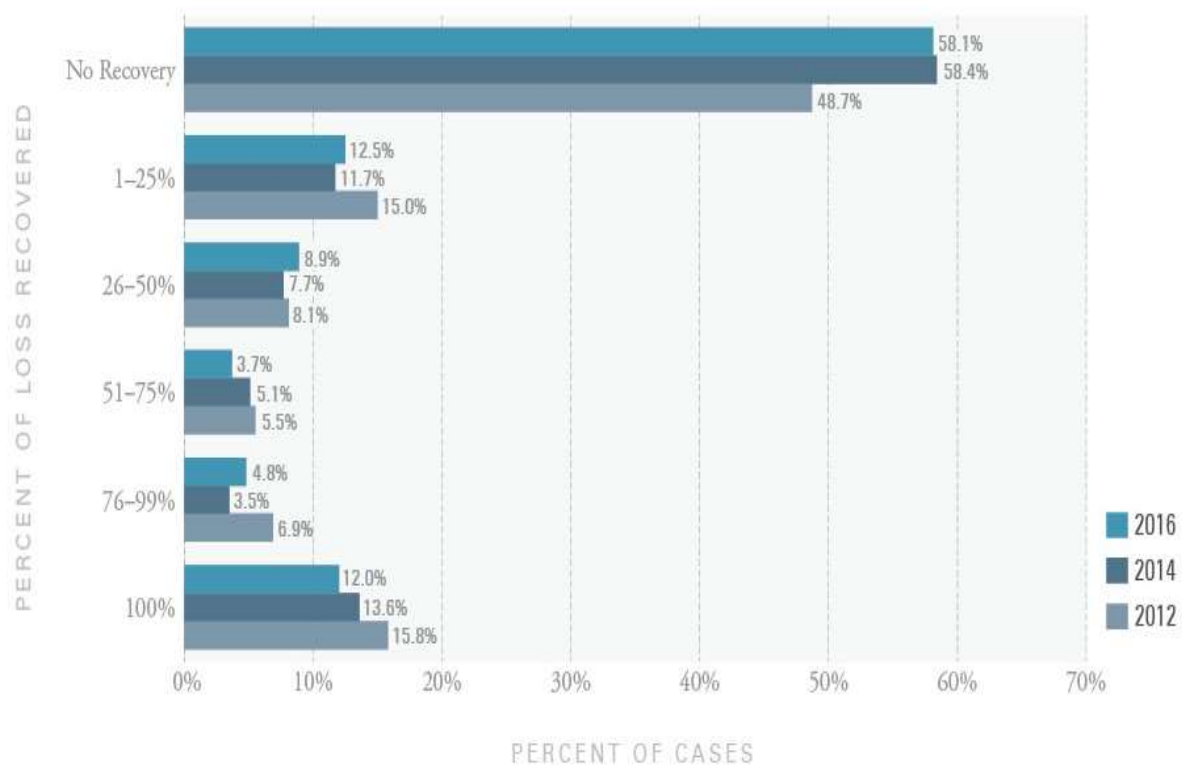
Figure 102: Reason(s) Case Not Referred to Law Enforcement



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# Recovery of Losses

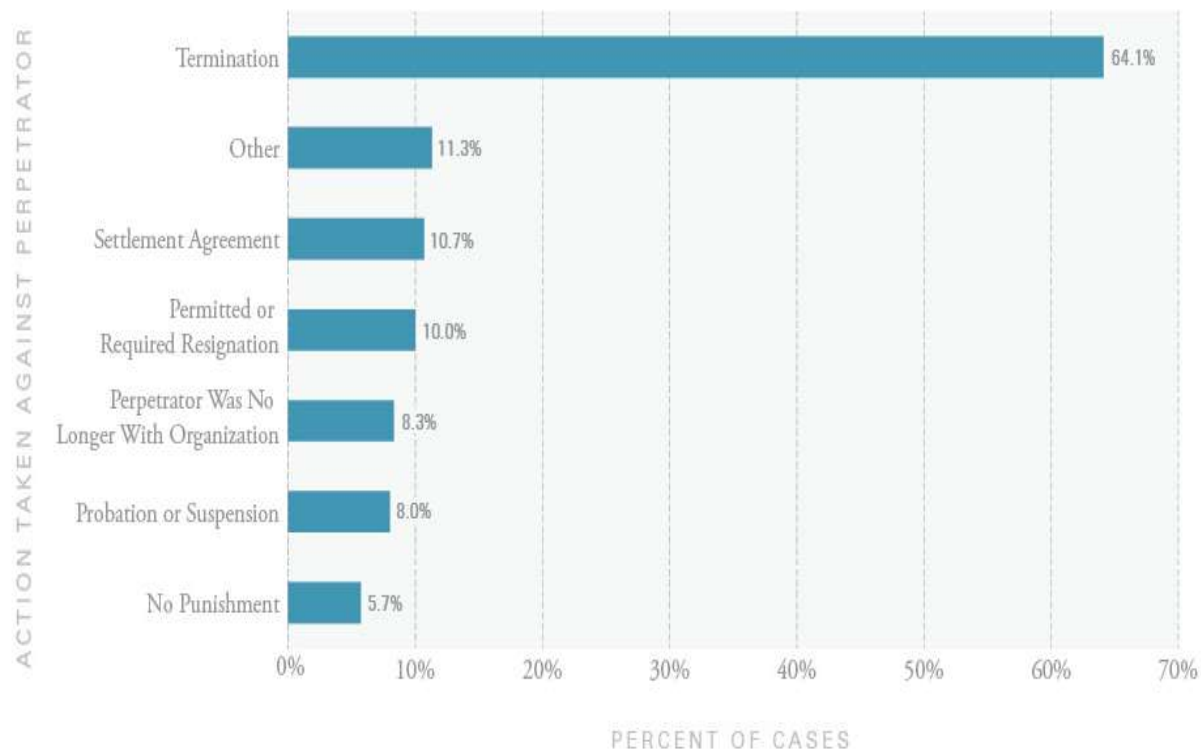
Figure 105: Recovery of Victim Organization's Losses



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# Action Taken Against Perpetrator

Figure 106: Action Taken Against Perpetrator



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## ENRON SCANDAL (2001)

### COMPANY

Houston-based commodities,  
energy and service corporation



### WHAT HAPPENED

**Shareholders lost \$74 billion,**  
thousands of employees and  
investors lost their retirement  
accounts, and many employees  
lost their jobs.



### MAIN PLAYERS

CEO Jeff Skilling and former  
CEO Ken Lay

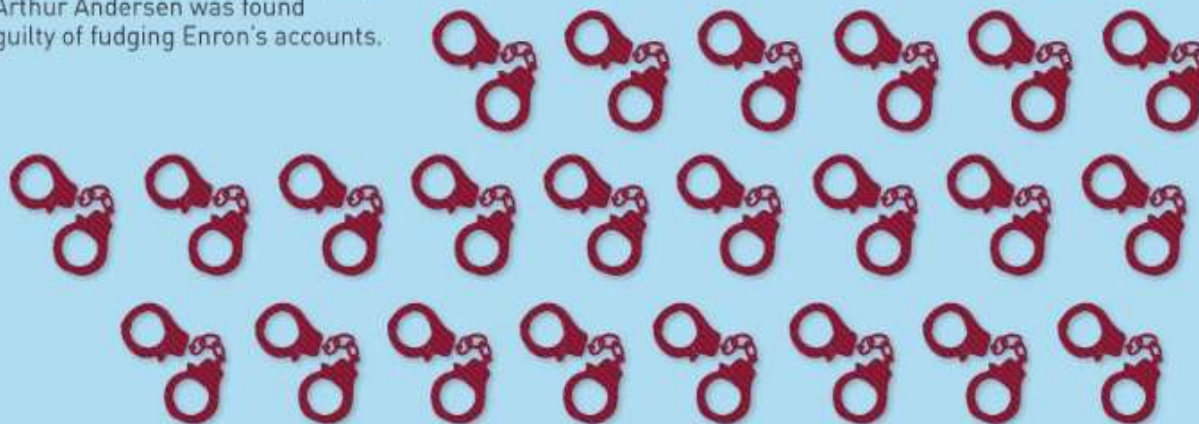


### PENALTIES

Lay died before serving time;  
Skilling got **24 years in prison.**  
The company filed for bankruptcy.  
Arthur Andersen was found  
guilty of fudging Enron's accounts.



= 1 year



### HOW THEY DID IT

Kept huge debts off the balance sheets.



### HOW THEY GOT CAUGHT

Turned in by internal whistle-  
blower Sherron Watkins; high  
stock prices fueled suspicions.



### FUN FACT

Fortune Magazine named  
Enron "America's Most Innovative  
Company" for six years in a row  
prior to the scandal.



# BERNIE MADOFF SCANDAL (2008)

## COMPANY

Bernard L. Madoff Investment Securities LLC,  
a Wall Street investment firm founded by Madoff

## WHAT HAPPENED

Tricked investors out of  
**\$64.8 billion** through the  
largest Ponzi scheme ever.



## MAIN PLAYERS

Bernie Madoff, his accountant,  
David Frierling, and Frank DiPascalli

## HOW THEY DID IT

Investors were paid returns out  
of their own money or that of  
other investors rather than profits.



## HOW THEY GOT CAUGHT

Madoff told his sons about his  
scheme; they reported him to the  
SEC. He was arrested the next day.



## PENALTIES

150 years in prison for Madoff +  
\$170 billion restitution. Prison  
time for Frierling and DiPascalli.



## FUN FACT

Madoff's fraud was revealed just months  
after the 2008 U.S. financial collapse.



# Fraud Resources

## 1. Association of Certified Fraud Examiners Membership and Tools

- [www.acfe.com](http://www.acfe.com)
- Start your ACFE Health Check Up
- Start your Fraud Risk Assessment
- Get more information on Fraud Risk Management
- Subscribe to Fraud Magazine
- Get your full copy of the 2016 Report to the Nations
- Membership-unlimited webinars

## 2. Managing the Business Risk of Fraud: A Practical Guide, published by the ACFE.



# Are you ready for the BOG Scavenger Hunt?

# Questions?

## Thank you for your time!

Contact The Team

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