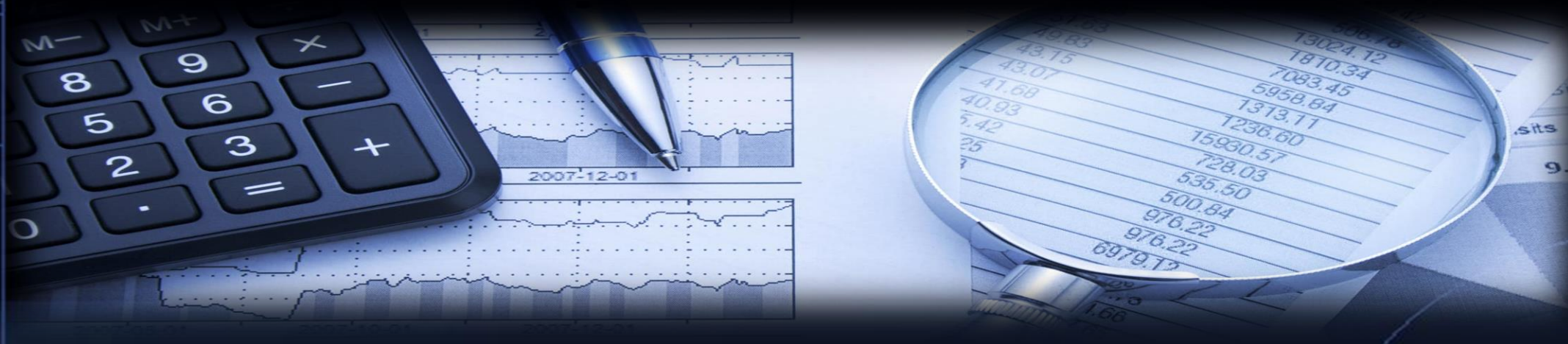


FRAUD PREVENTION

The Secret of Fraud Prevention



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Wipfli

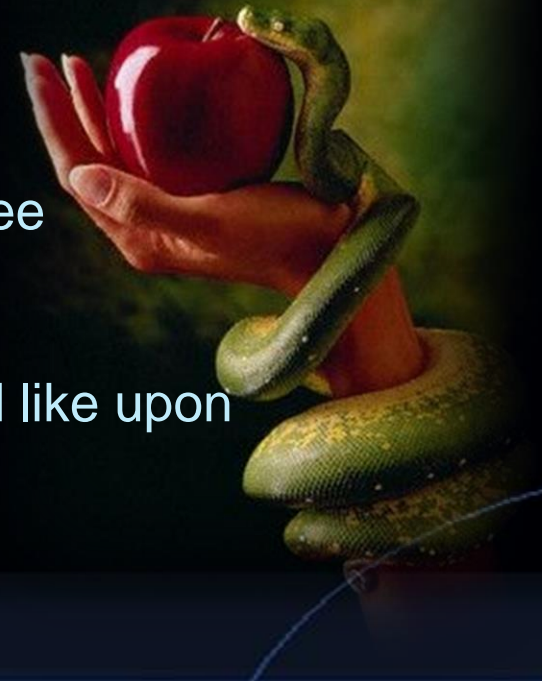
- We are the 19th largest firm in the country
- We are the 14th largest in the Chicago area



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What was the 1st Recorded Fraud?

- Book of Genesis
- Eve was tempted by a serpent to eat the fruit of the tree of conscience
- The serpent represented to her that she would be god like upon eating the fruit



3 Broad Types of Fraud

- **Asset Misappropriations**
Theft of cash or inventory
- **Corruption**
Bribery, kickbacks, conflicts of interest
- **Financial Misstatements**
Dressing up financial records or statements

What if the Fraud Was Unintentional?

Is an employee who gives away product, services, time or in effect cause a loss or damage responsible if:

- A policy does not exist?
- Precedence has been set in disagreement with written policies?
- It was human error?

An accusation of fraud when there is no fraud, but instead incompetence, can lead to litigation.

Remember Hanlon's Razor

Never attribute to malice that which is adequately explained by stupidity

What is the cost of fraud?

Not just money

- Time
- Image
- Culture
- Etc.

United Way Embezzlement

- Nearly went out of business due to bad publicity from an internal embezzlement in late 80's

Major Embezzlement Cases in Illinois

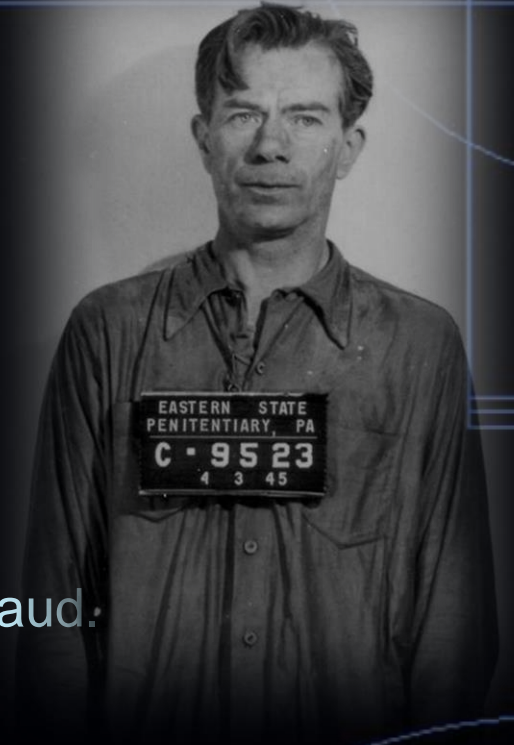
Perp.Victim	Organization	Amount	Year
Rita Crundwell	Township of Dixon, IL	\$53.7 million	2012
Irina Nakhshin	Affiliated Health Group	\$20.0 million	2013
Richard Gillman	Republic Window & Doors	\$10.0 million	2009
Doug Volkman	Coldwell Banker	\$6.0 million	2010
Scott Kennedy	Nemera	\$5.8 million	2017
David Tresch	Mayer Brown	\$4.8 million	2013
Mary Becker	Jersey State Bank	\$4.5 million	2011
Robert Rome	Crawford Supply	\$4.3 million	2009
Steven Brazile	Sara Lee Corp.	\$3.9 million	2013
Dora Asmussen	Burling Bank	\$3.1 million	2012
Kathleen Niew	Real estate law firm	\$2.3 million	2013
Barb McKinzie	Alpha Kappa Alpha	\$2.2 million	2009
Nancy Huskins	State Bank of Lincoln	\$2.0 million	2014
Kathleen Barth	Kraft Chemical	\$2.0 million	2012

Sutton's Law

Who can you recover from? How will you recover your loses? What are the best avenues to recover?

- Most companies do not have the right insurance

- In Illinois, insurance companies only cover a certain time period.
- You will need to layer insurance companies to cover a duration of a fraud.



Example Company

	Year 1	Year 2	Year 3	Year 4	Total
Gross revenue	2,400,000	2,500,000	2,500,000	2,250,000	\$ 7,250,000
Cost of goods sold (kept at 80% for illustrative purposes)	1,920,000	2,000,000	2,000,000	1,800,000	\$ 5,800,000
Gross profit	480,000	500,000	500,000	450,000	\$ 1,450,000
General expenses including officer salary	432,000	470,000	495,000	562,500	\$ 1,527,500
Net revenue	48,000	30,000	5,000	(112,500)	\$ (77,500)
Officer's salary per year	150,000	120,000	75,000	50,000	\$ 245,000
Amount stolen per year		50,000	200,000	350,000	\$ 600,000

Year 1 is prior to embezzlement starting
Mother had a \$50,000 salary per year that was unaltered.

Who Are You Working For?

Net Profit %	10%
Revenue necessary to cover \$100,000 embezzlement	\$ 1,000,000
Example Company total fraud	\$ 600,000
Sales necessary to recover total embezzlement	\$ 6,000,000

Important Points

- You CANNOT prevent fraud.
- You can make fraud less likely to happen.
- You can make fraud easier to detect
- You can make yourself a hard target so the fraudster finds another target

Hawthorn Effect

How it works?

- Make staff feel not only more involved, but like someone is watching them.
- When someone is being watched, their productivity increases.
- Talk to staff or have the leaders talk to the staff in other departments.

Culture Matters

*DO IT RIGHT
NO MATTER HOW MUCH
IT HURTS*

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How to Minimize the Risk of Fraud?

What do fraudsters steal?

Chris Marquadt's study

98% of occurrences... **it's money**

So How do you Prevent the Theft of Money?

- Oversight and control



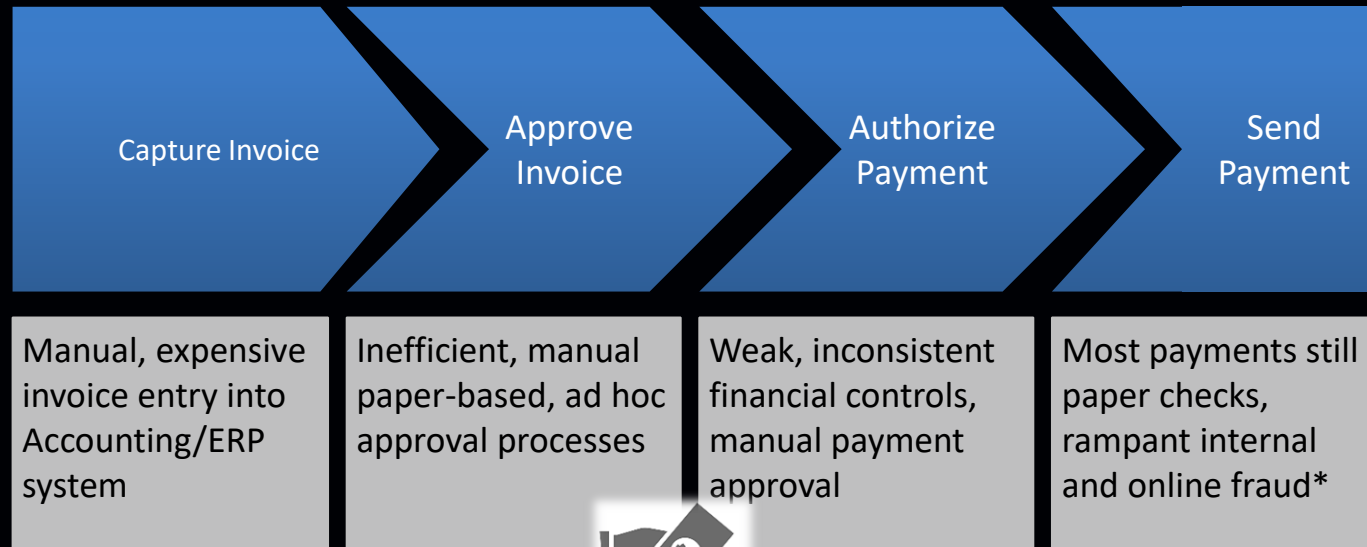
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AP Is Broken

Customer

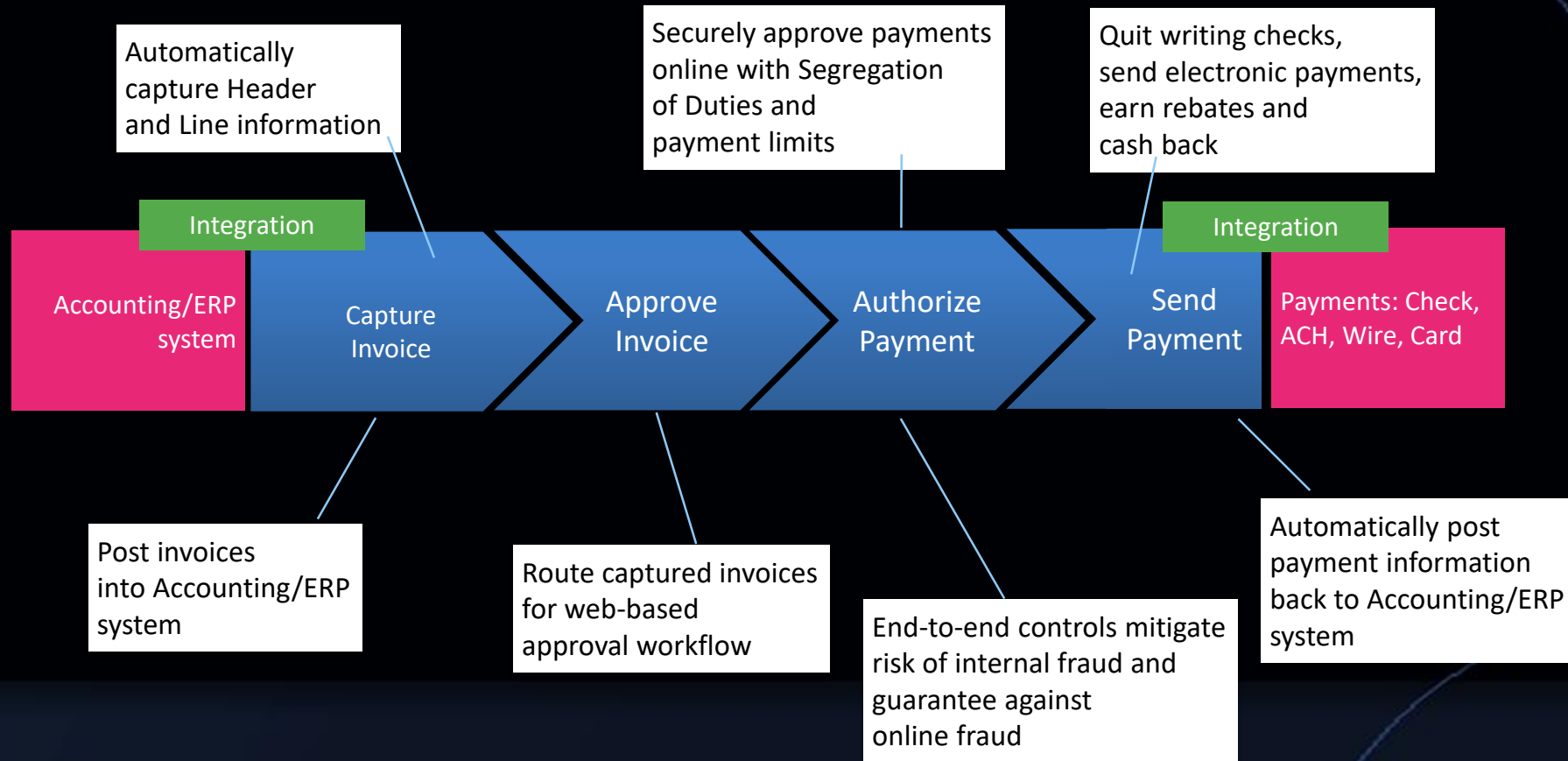


Vendor



*"Sixty percent of all organizations were targets of payment fraud in 2013"; Business Email Compromise losses: \$3B since 2015

Automation makes AP simpler, safer



Make AP Safer

- **Enforce controls on invoice capture and approval**
 - Eliminate fake invoices from "vendors"
 - Invoice approval tiers
- **Enforce Invoice posting to ERP prior to payment**
 - Controls ensure that invoices are posted against known vendors
- **Enforce strict segregation of duties during payment approval**
 - Payment approval tiers
- **Enforce two-factor authentication for key events**
 - login and payment release
- **Enforce limits and controls for all payments**
 - Limits potential loss
- **Positive Pay integration with bank to mitigate check fraud risk**
- **Virtual cards: single use tokens, exact amount, expiration**

Larger Company

- Segregation of duties
- Review of rotation of duties

Vacation



- ❖ Most companies have a vacation policy
- ❖ They don't execute it properly

Control Spending

Fleet cards are a great tool



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Control

Control who can..

- Issue payments
- Sign payments
- Authorize discounts
- Etc.

❖ Have someone else do the Bank Rec

CONTROL CREDIT CARDS AND EXPENSE REPORTS

- ACFE study 15.8% of all frauds
- Stereotypically, fraudsters start small and this is a great place
 - It's called pinging



How can I be sure what's going on now is right?

Analytics are a great start

How much in expense does it take to generate sales?

Travel costs for salesmen seem to be a very accurate indicator as to what sales they're generating. (Depending on factors like area and face to face contact)

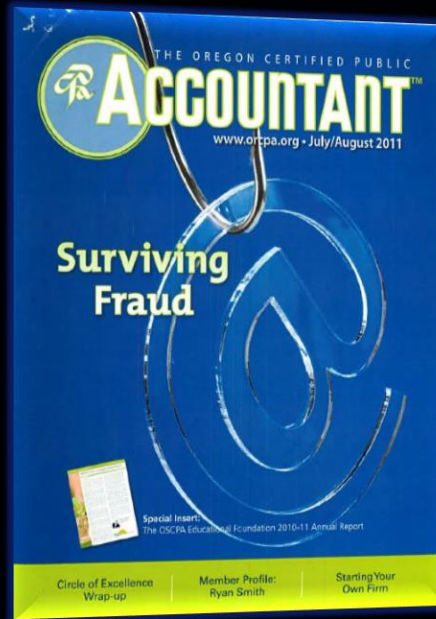
Theft of Inventory or Assets

SECURITY CAMERAS



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Don't be that Company



- 20% of the time, a company does nothing in response to a fraud.

There Has Never Been a Fraud...

Where internal controls have been properly designed and executed

FRAUD RISK ASSESSMENT

It is a tool used by Certified Fraud Examiners to identify and address weaknesses in internal controls.

There are 15 different areas of a complete Fraud Risk Assessment

We are Wipfli

*The answer is almost never **NO***

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