Wipfli

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

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

Who can you recover from? How will you recover your losses? 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

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

Year 1 is prior to embezzlement starting
Mother had a $50,000 salary per year that was unaltered.
### Who Are You Working For?

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit %</td>
<td>10%</td>
</tr>
<tr>
<td>Revenue necessary to cover $100,000 embezzlement</td>
<td>$ 1,000,000</td>
</tr>
<tr>
<td>Example Company total fraud</td>
<td>$ 600,000</td>
</tr>
<tr>
<td>Sales necessary to recover total embezzlement</td>
<td>$ 6,000,000</td>
</tr>
</tbody>
</table>
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
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?

- Oversite and control
AP Is Broken

Capture Invoice
- Manual, expensive invoice entry into Accounting/ERP system

Approve Invoice
- Inefficient, manual paper-based, ad hoc approval processes

Authorize Payment
- Weak, inconsistent financial controls, manual payment approval

Send Payment
- Most payments still paper checks, rampant internal and online fraud*

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

WIPFLi LLP
CPAs and Consultants
Automation makes AP simpler, safer.

- **Automatically capture Header and Line information**
- **Post invoices into Accounting/ERP system**
- **Route captured invoices for web-based approval workflow**
- **End-to-end controls mitigate risk of internal fraud and guarantee against online fraud**
- **Securely approve payments online with Segregation of Duties and payment limits**
- **Quit writing checks, send electronic payments, earn rebates and cash back**
- **Automatically post payment information back to Accounting/ERP system**
- **Payments: Check, ACH, Wire, Card**

**Integration**
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
Most companies have a vacation policy. They don’t execute it properly.
Control Spending

Fleet cards are a great tool
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
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
Our Information

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