

# Occupational Fraud 101 for Small Business Owners



*Dawn Myers, CFE, CPA*



# Introduction

- *Fraud* – taking something from someone else through deception or concealment.
- *Occupational frauds* are those committed in connection with the fraudster's occupation.
- Fraud—in all its forms—costs billions of dollars in damage each year.



# Elements of Fraud

- *A material* false statement
- *Knowledge* that the statement was false when it was uttered
- *Reliance* on the false statement by the victim
- *Damages* resulting from the victim's reliance on the false statement



# Types of Fraud

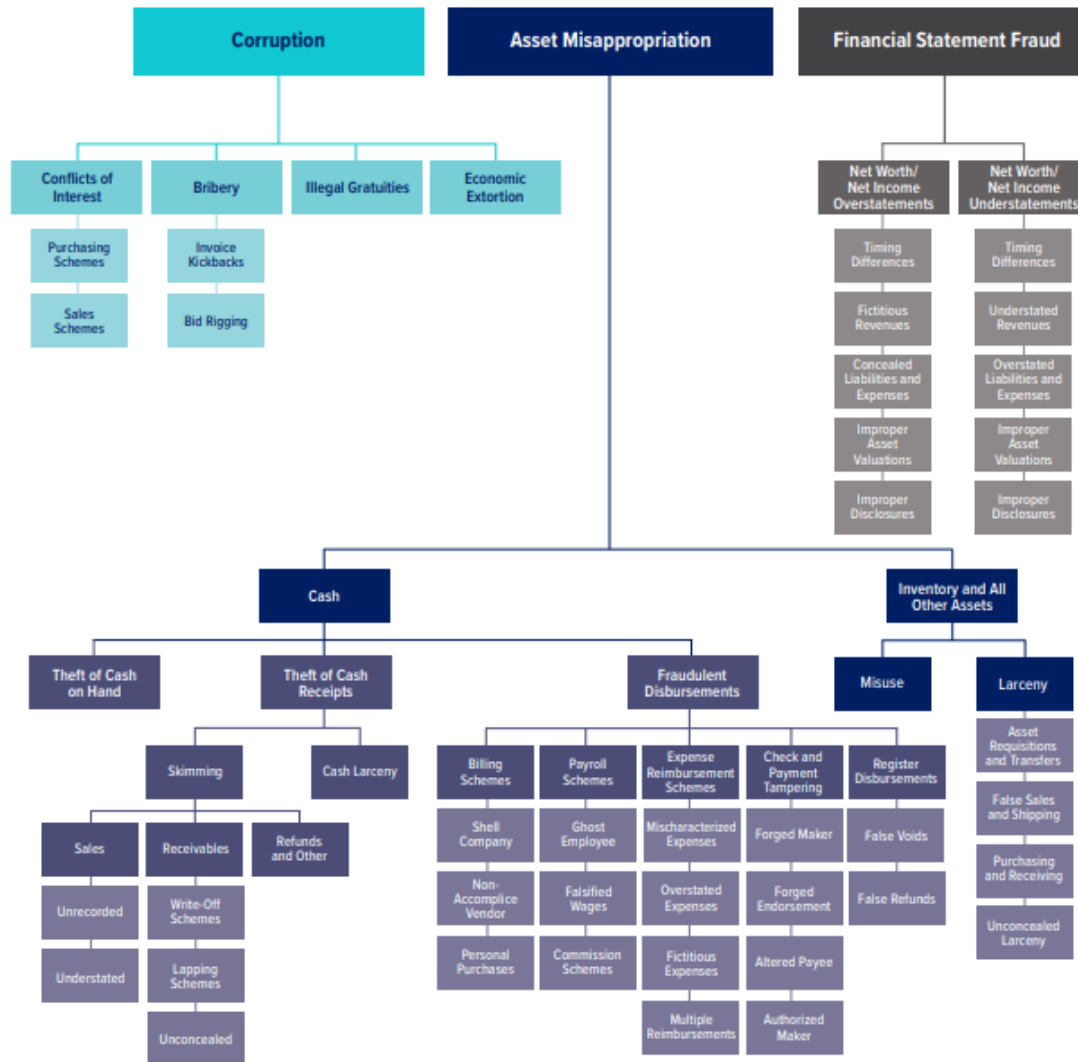
The ACFE classifies frauds into 3 categories:

- Corruption
- Asset Misappropriation
- Financial Statement

**FRAUD**



# ACFE Fraud Tree



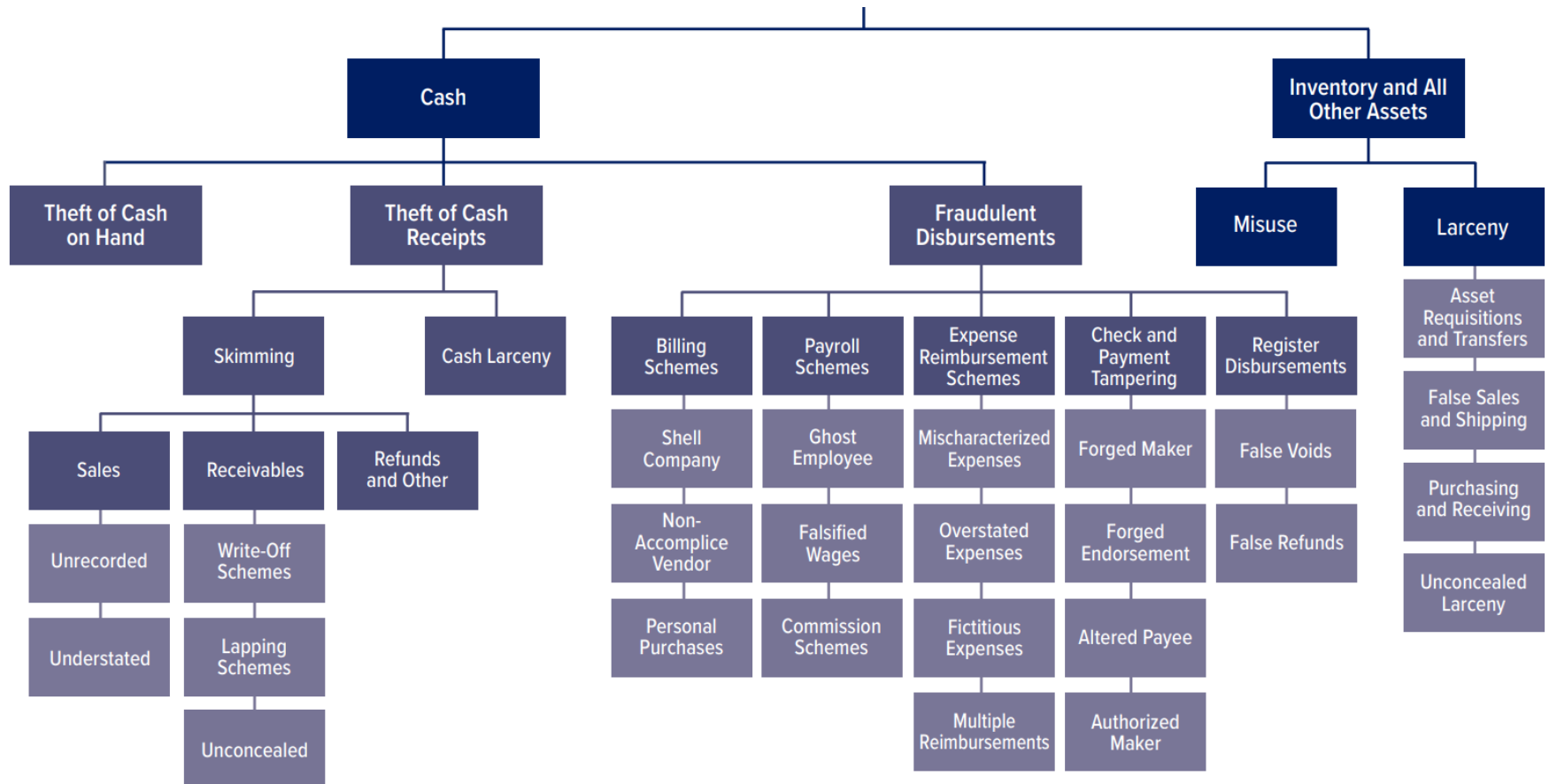
# Asset Misappropriation

*Asset misappropriation*: fraud schemes in which an employee steals or misuses an organization's assets

- Skimming cash receipts
- Stealing inventory
- Tampering with checks and electronic payments
- Using company equipment without permission



# Asset Misappropriation



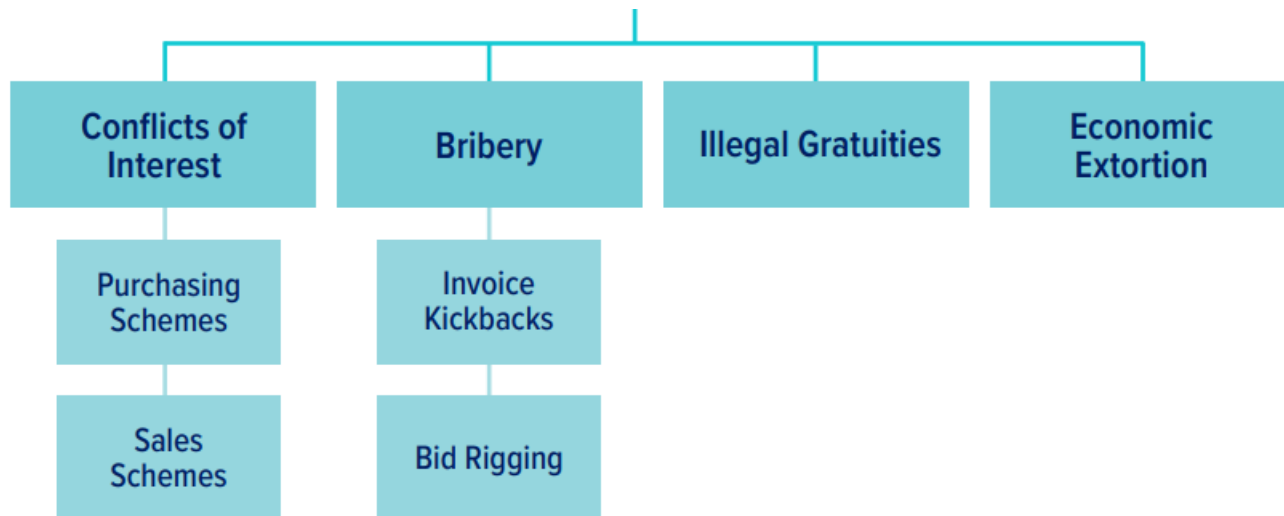
# Corruption

*Corruption*: fraud schemes in which a fraudster wrongfully uses their influence in a business transaction for the purpose of obtaining a personal benefit or a benefit for another person

- Conflicts of interest
- Illegal gratuities
- Bribery



# Corruption



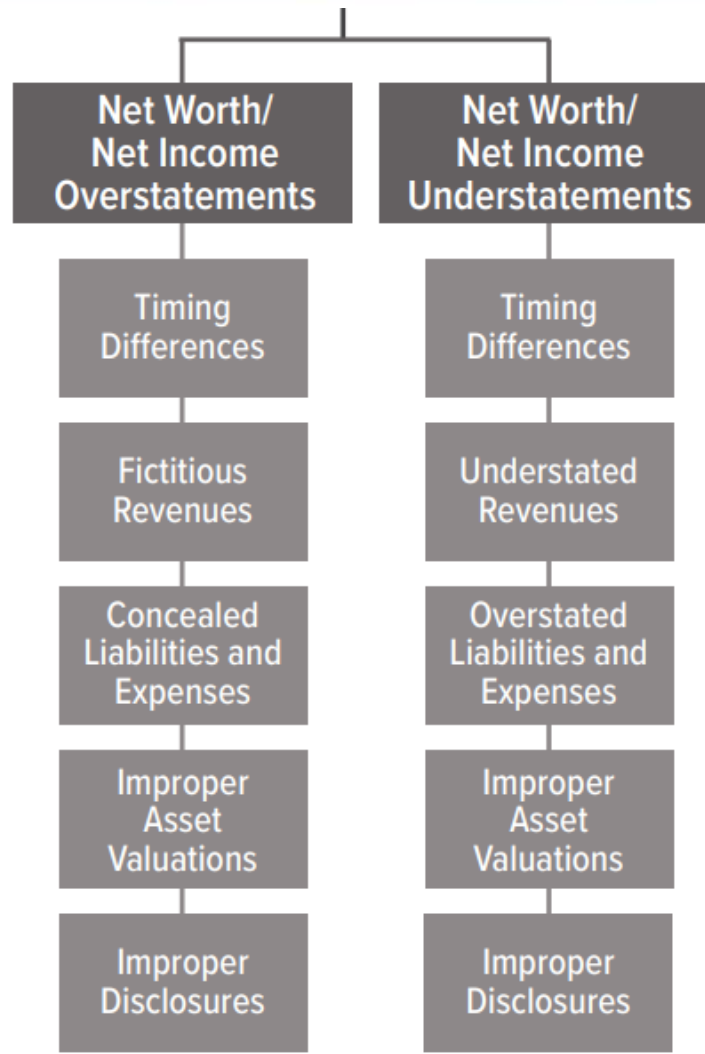
# Financial Statement Fraud

*Financial statement:* fraud schemes involving the intentional misreporting of an organization's financial information with the intent to mislead others to:

- Conceal true business performance
- Preserve personal status/control
- Maintain personal income/wealth



# Financial Statement Fraud



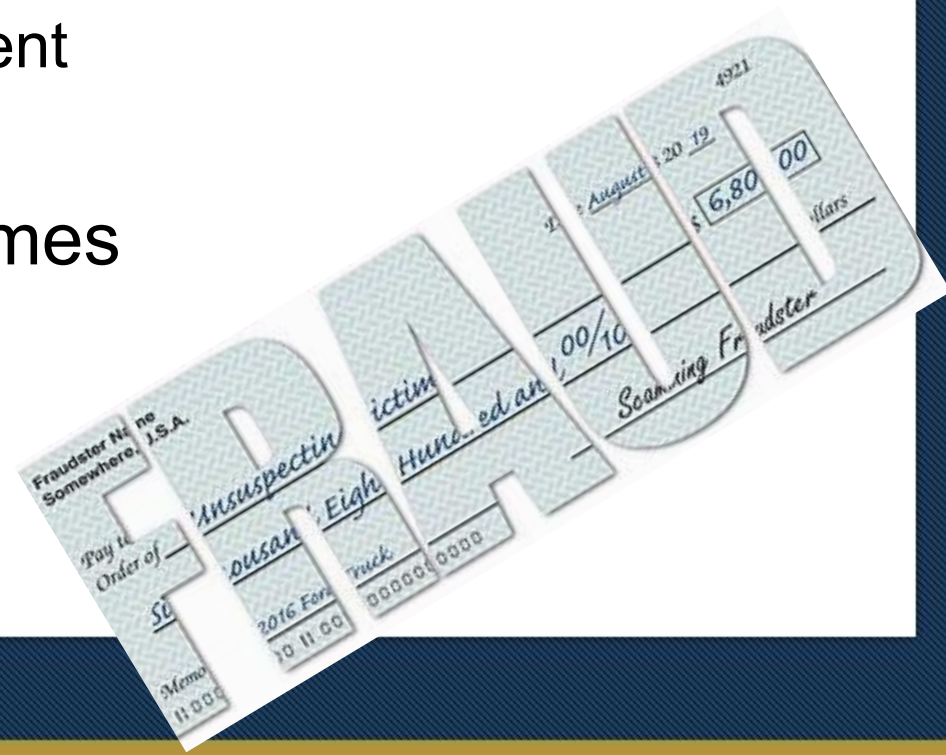
# Common Examples of Occupational Fraud

- Claiming overtime for hours not worked
- Giving friends or relatives unauthorized discounts on company merchandise or services
- Adding ghost employees to the payroll
- Stealing incoming cash



# More Common Frauds by Employees

- Fraudulent disbursements
  - Check and electronic payment tampering
  - Register disbursement
  - Billing
  - Expense reimbursement
  - Payroll
- Inventory fraud schemes



TRUST

*but*

VERIFY



*Ronald Reagan via Gecko&Fly*



# All the Queen's Horses

Rita Crundwell was Dixon's comptroller and treasurer from 1983 to 2012



# All the Queen's Horses

- [All the Queen's Horses movie trailer](#)
- Embezzled \$53.7 million
- Plead guilty November 14, 2012
- Sentenced in 2013 - 19 years, seven months (projected release October 20, 2029)
- Released from Federal Prison August 19, 2021 after serving just over seven years



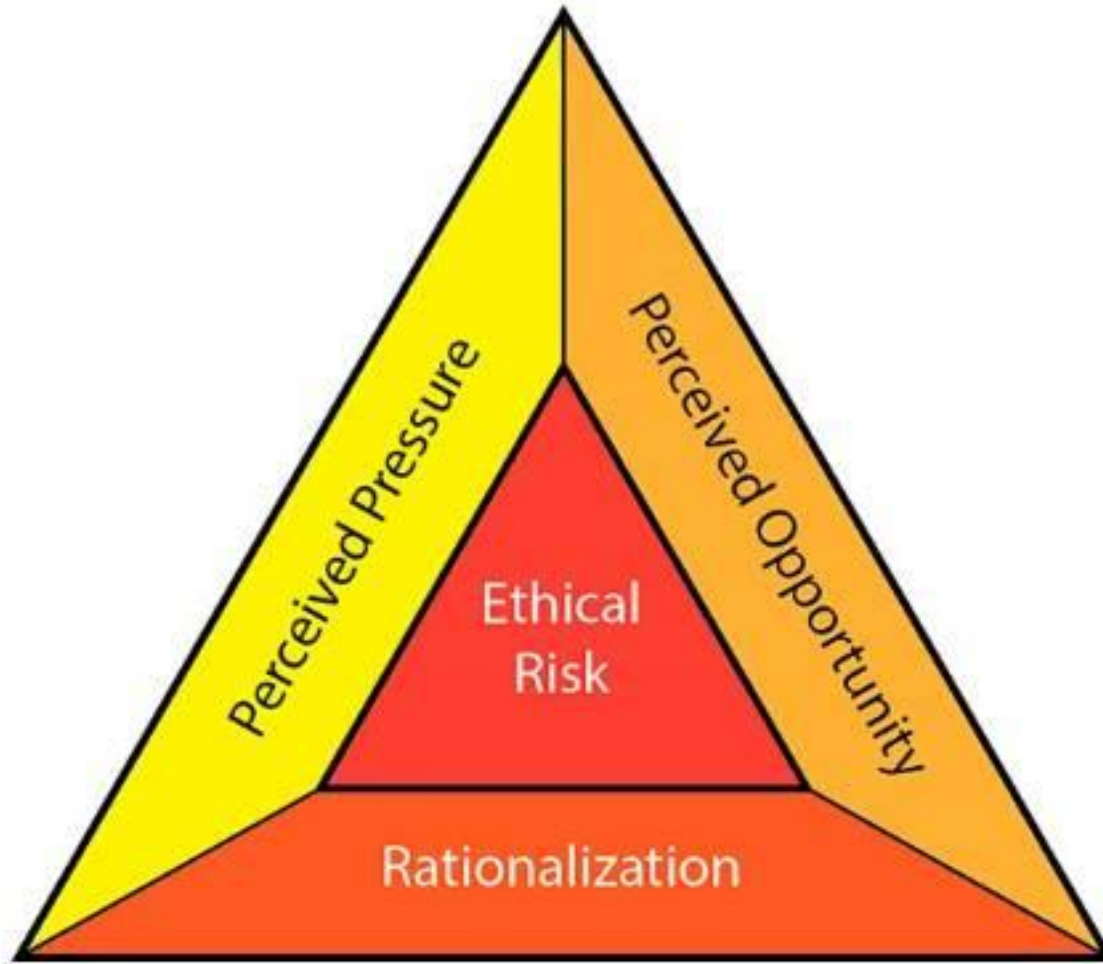
# Common Frauds by Vendors



- Bid-rigging
- Price-fixing
- Overbilling
- Kickbacks
- Shell companies



# What Causes People to Commit Fraud?



# What Causes People to Commit Fraud?

## ***Pressure***

- A gambling or drug habit
- Personal debt or poor credit
- A significant financial loss
- Peer or family pressure to succeed



# What Causes People to Commit Fraud?

## *Opportunity*

- Lack of supervision
- Poor internal controls
- Poor recordkeeping
- Extreme trust in a single individual
- Lack of disciplinary action for previous frauds



# What Causes People to Commit Fraud?

## ***Rationalization***

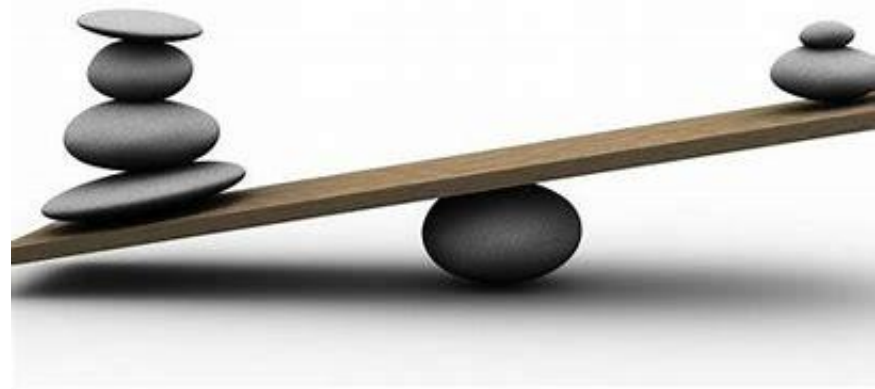
- Fraudsters judge themselves on their intentions, while we judge them on their actions
- *I was only “borrowing” the money and planned to repay it.*
- *The company won’t even realize this amount is gone; it’s not that much.*
- *My boss does it all the time.*



# What Causes People to Commit Fraud?

## ***Rationalization***

- *I've been working with the company for 15 years. They owe it to me.*
- *I'll stop once I pay off my debts.*
- *I deserved this after the way the company treated me.*



# How Fraud Affects You and Your Organization

- Fewer pay increases
- Increased layoffs
- Greater pressure to increase sales and revenue
- Decreases in employee benefits
- Low employee morale
- Negative publicity for the company



# What to Look For

## Red Flags of Fraud

- Living beyond means
- Financial difficulties
- Serious addiction to drugs, alcohol, or gambling
- Irritability



# Other Warning Signs of Fraud

- An unwillingness to share duties
- A refusal to take vacations
- A close personal relationship with vendors or customers
- Complaints about low pay
- Family problems
- Excessive pressure within the company
- Rule breakers



# Whoa! Phrases that Stuck with Me!!

“Employees you trust the most,  
will get the most.”

“Trust is good . . . you need to trust,  
but VERIFY.”

“Chasing good money . . . After bad.”



# Areas that Need Close Attention

- Cash Receipting
- Accounts Receivable
- Payroll
- Accounts Payable
- Inventory
- Purchasing and Procurement
- Capital and other Valuable Assets
- Banking Systems
- General Ledger

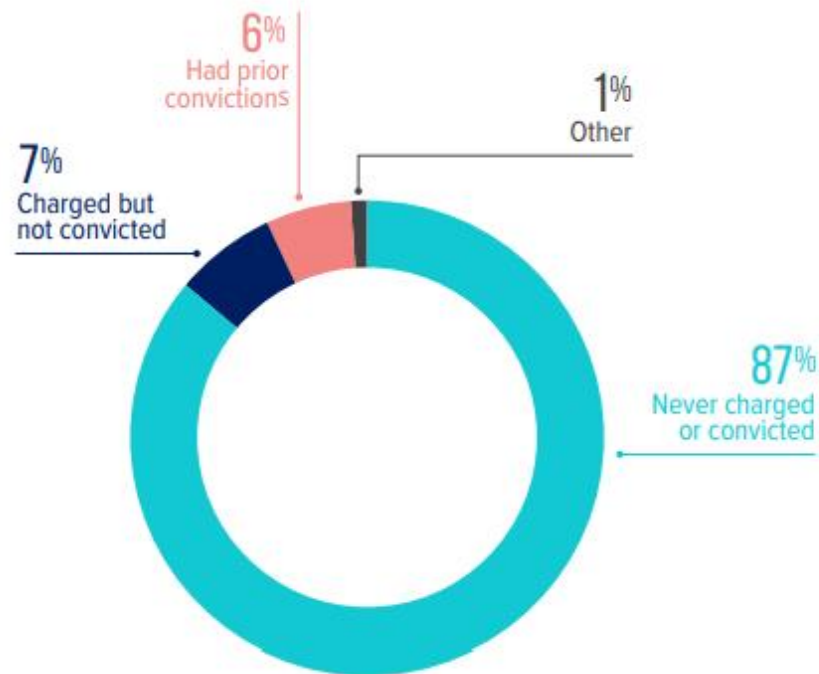


# Perpetrator Hiring Background Checks

## PERPETRATOR'S CRIMINAL BACKGROUND

Only 6% of perpetrators in our study had a prior fraud-related conviction, which is consistent with our findings in previous studies. It is worth noting, however, that 42% of cases in our study were not reported to law enforcement (see Response to Fraud infographic, page 63), which is also consistent with prior findings. Because so many frauds go unreported, it is very likely that the true number of repeat offenders is higher than the 6% who have prior convictions.

**FIG. 42 DO PERPETRATORS TEND TO HAVE PRIOR FRAUD CONVICTIONS?**



# Fraud Prevention

- Fraud prevention is the process or set of activities implemented to deter, detect, and resolve fraudulent incidents.
- The goal of fraud prevention is to reduce the incidence of fraud and related costs.
- Prevention strategies may focus on deterring potential fraudsters, detecting fraudulent activity, or resolving incidents of fraud.



# Monkey See, Monkey Do!



# Mental and Emotional Effects

- Financial fraud doesn't just impact your bank account.
- Mental and emotional effects can include:
  - Anxiety – world around seems unsafe
  - Shame – embarrassed they were scammed
  - Grief – loss of financial security and sense of independence or trust in people



# Suspect you were Scammed?

## Gather Information

- Document your concerns
- Cover what exactly happened
- Date or dates it occurred
- Individuals believed to be involved
- Known or estimated amount of the loss
- Where it took place
- Any other relevant information



# Review Financial Transactions

## ■ Step 1: Review Bank Statements

Cash withdrawals

- Transfers to bank accounts you do not recognize
- Wire transfers to bank accounts or for suspect expenses
- Credit card payments
  - No credit card, why are there credit card payments?
  - Make sure all credit card payments listed on their bank statement are for known credit cards. If payment listed, but you can't find it on the known credit card statements, this is a red flag.
- Two house payments or multiple utility bills
  - This is a very common way people steal from estates; unless this person owns multiple homes or commercial properties, there should only be expenses for their current home.



# Review Financial Transactions (cont'd)

- **Step 2: Review Credit Card Statements**
  - If the estate uses credit cards, access the online statements and start reviewing transactions.
- **Step 3: Find Corroborating Information**
  - If you find anything suspicious from steps one or two, find corroborating information to backup your suspicion.
- **Step 4: Pull a Credit Report**
  - By doing this you should be able to identify any accounts that have been opened in their name.



# Conclusion

- Everyone in an organization is responsible for fighting fraud.
- Be alert to potential fraud.
- Report any suspicions to management.



# Local Frauds

- The former bookkeeper of a local Dentistry stole approximately \$300,000 from the business over the course of eight years. Considered a close family friend for more than 33 years.
- Family machine shop bookkeeper was embezzling, daughter straight out of college discovered when helping with books.
- IOU in cash drawer
- 900 calls on company credit card



# Local Frauds (cont'd)

- MCI/Worldcom merger not paying their bills
- Fraudulent prisoner release check
- 3<sup>rd</sup> day at new job, AP Specialist put note with PUD bill
- Coaches collecting chocolate fundraiser, but not turning in funds
- Helping a sports group treasurer catch up and reviewing bills – two cable/internet bills
- Former volunteer firefighter, credit card on honeymoon documented on Social Media



# Local Frauds (cont'd)

- McNeil Island Trust accounts manager embezzled from inmate accounts
- L&I employee embezzled from crime victim fund account after SAO audit
- City of Shelton employee cashed check remotely and in person at bank
- Witnessed someone selling on FB Market very obvious inventory from his employer
- Mason Fire District #12
- Local CPA just sentenced to 12 months, 1 day



# Contact Information

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