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A Sad But True Story

This is a story that's sad but true. There are eighteen states that operate a Liquor Control Board (LCB). The LCBs give the state control over the wholesale and/or retail sale of some or all categories of alcoholic beverages within their borders.

One state's LCB financial analyst struck up a "social friendship" with the owner of a local trucking company. The analyst had recently experienced a difficult period of unfortunate personal events in her life, including the loss of close family members in a tragic accident, leaving her lonely and troubled. By contrast, the trucking company owner was friendly and a good listener, and seemed to lead an exciting life. He was politically connected and had obtained his contract to haul liquor through this connection.

A 10-year accounting employee, the financial analyst had the requisite knowledge of the system and procedures used by the LCB. As the "all-paper" accounts payable division transitioned to a new accounting software system, she was the one who wrote the operational manual for batching, processing, and checking freight invoices. Even after being promoted to financial analyst, she was the go-to person to advise, troubleshoot, and assist in the freight invoice payment procedures from time to time. The accounts payable group felt very fortunate she was always available to help out.

The analyst took special care with her friend's billings and payments, even when it was no longer in her routine employment duties. She even assisted her friend's company in the accounting system set-up process, showing them how to rate their loads and bill the LCB.

The trucking owner would always exclusively call the analyst to obtain rates and arrange payments. The analyst would tell co-workers that she had already checked the validity of his invoices, and instructed those who took over her old duties in accounts payable to direct his invoices and payments to her to review alone. As time went on, she hand delivered the trucking owner's checks in the parking lot. Those meetings led to dates, parties, dinners at the finest restaurants, and vacations. They would be seen together at the local major league baseball games where the trucking owner maintained a skybox suite.

The trucking company owner's friendship with the analyst provided the insight, information, and assistance to develop a smooth, but fraudulent billing process. Their scheme involved overstating the weights hauled, inflating the otherwise proper rate (or tariff) for the route, and duplicating legitimate invoices.

Although she enjoyed the lifestyle the theft provided, eventually the analyst turned herself in, whether from guilt or conscience. Three years and \$1.5 million later, the analyst's fraud came to light. Her undetected fraudulent activities ultimately cost her a career, financial damages to her employer, and criminal inquiries at the trucking company.

How was she able to get away with the theft? As the go-to person, she gained the trust of everyone in the department. Nobody questioned why she continued to handle the trucking account. The tragic events she experienced put her life in turmoil. An improved lifestyle was her way of coping with her situation. Besides, she rationalized, she worked hard and deserved it.

Alas, for all those parties involved, this is yet another true story about fraud that does not end happily.

*By Richard Searcy, Claims Department
Great American Insurance Group
Fidelity / Crime Division*

Contact List



Great American Insurance Group

Dennis Burns, VP
Fidelity / Crime Division
212.513.4017
dburns@GAIC.com



Lowers Risk Group

Steve Yesko, ARM
VP, Bus. Development
540.338.7151
syesko@lowersriskgroup.com

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5 Key Components of a Fraud Risk Management Policy

All organizations are vulnerable to occupational fraud, and that fraud costs an enormous amount of money (\$652 billion a year in the U.S. according to ACFE research as summarized in this [occupational fraud infographic](#)). As a result, a comprehensive fraud risk management policy is an essential component of an overarching enterprise risk management plan. An effective fraud risk management policy originates with the risk analysis that must underlie the policy, by identifying the concrete organization-specific fraud risks that must be mitigated.

Systematic planning and implementation across these five basic areas will put your [fraud risk management](#) program on the path to success.



1. Identify a “risk owner” in your organization.

Upper management must be engaged in organizational policies aimed at mitigating risk. Management’s responsibility is clear and the message from the top must be one of zero tolerance. Such a top-down approach helps to establish the corporate culture, one devoid of occupational theft/fraud. That said, a member of upper management should be charged with championing and overseeing the risk analysis, including determining if/how identified risks should be addressed. As with every important management function, this task will include process definition, goal setting, measurement, and reporting on a timely basis.

Occupational fraud costs an enormous amount of money—5% of annual revenues—\$652 billion a year in the U.S. alone, according to ACFE research.

2. Analyze your organizational structure and functions to identify fraud risks.

Assessment of risks will be part structural (e.g., reporting or control over access to information and finances) and part functional (e.g., how specific activities are organized to achieve objectives). The assessment may be part of an ongoing or regularly scheduled process, and it may also be triggered by significant changes in the organization’s objectives or by growth. What is clear is that you cannot mitigate risks you do not perceive or understand – the assessment is crucial. A sound and thorough risk assessment methodology is crucial for success.



3. Determine which, if any, risks should be rejected.

Based on the analysis, you may determine that the costs associated with identifying the fraud risks of a business service or product far exceed their value. For example, such an outcome may be associated with new business opportunities. With no prior data from which to draw conclusions regarding the risk(s), it can be difficult to assess and determine appropriate treatment of such risk. In other words, a determination of which, if any, risks may be rejected should become part of your evaluation of new markets or new lines of business.

4. Determine which risks can be mitigated via risk-sharing arrangements.

Of course, insurance is the most common form of risk sharing or transfer in any organization. Determining whether losses due to fraud are adequately covered will be an important part of your analysis. In some cases, you may be able to mitigate risks further through expanded insurance coverage, depending on the character of the risks.

You may also find ways to share or transfer risks via contract to partner or supplier organizations. This suggests that analyzing your contractual relationships with other organizations would be part of your basic fraud assessment. For example, mitigating fraud losses within contractual relationships may require negotiating greater visibility into contractors’ financial performance.

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5 Key Components of a Fraud Risk Management Policy (continued)

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5. Identify how to manage risks that are retained.

The risks that you fully retain will be intrinsic to your core business activities. Every organization has to manage finances, people, and routine relationships with vendors, customers, partners, and regulators. In all of these internal activities, you may identify theft/fraud risks that require deliberate management through effective controls of different sorts. The final step in your fraud risk management policy is to define what these controls are and how you will measure their effectiveness. This can be a big job, but it should help mitigate fraud risks and likely will create a better performing organization, overall.

Corporate fraud will continue to present a threat to people, brands, and profits for the foreseeable future. As your organization strives to address these risks, while maintaining compliance with internal governance and government regulations, it's easy to get lost in the details, become complacent, or purely reactive. Perseverance is the key!

The fundamentals of a sound corporate fraud risk management policy, as outlined here, should remind you to approach the topic with a well structured and systematic approach.

By Brad Moody
Vice President, CIT and Financial Institution Relationships
Lowers Risk Group

Establish and communicate a corporate fraud policy to address fraud before it happens.

Fraud Awareness, Detection, & Prevention Week

To help shine a spotlight on a global problem, Lowers Risk Group participated in International Fraud Awareness Week on November 3-9, 2013 as an official supporter to promote anti-fraud awareness and prevention. Fraud awareness is critical at a time when organizations around the world lose an estimated 5 percent of their annual revenues to fraud, according to a survey of business owners or risk professionals conducted by the Association of Certified Fraud Examiners (ACFE). Business leaders and employees are encouraged to proactively take steps to minimize the impact of fraud by promoting anti-fraud awareness and education.

There are some basic steps that any organization can and should take to help combat fraud:

- ⇒ **Establish and Communicate a Corporate Fraud Policy** to address fraud *before* it happens. Download a **Sample Fraud Policy** (PDF) provided by the ACFE.
- ⇒ **Take a Fraud Prevention Check-Up** to help identify your exposure to and then determine how best to manage your fraud risks.
- ⇒ **Establish an Anti-Fraud Hotline.** With their proven record of deterring and detecting unethical or illegal activity, an anonymous fraud hotline is a critical internal control that should be considered by any organization. Ask us about our partnership with a leading provider of whistleblower hotline solutions.
- ⇒ **Utilize readily available Anti-Fraud Resources** to help train your employees and increase awareness of the potential for theft/fraud within your organization.
- ⇒ **Buy Good Crime Insurance.** Ask us or your insurance broker for a referral to reputable providers of crime insurance that will meet your needs and budget.

For more information about Lowers & Associates' Occupational Theft/Fraud Assessment, Investigation, Mitigation, and Loss/Claims Services, please visit www.lowersrisk.com/services/fraud-investigations.php.

Source:
The Association of Certified Fraud Examiners (ACFE)



Utilize readily available anti-fraud resources to help train your employees and increase awareness of fraud within your organization.

Four Defendants Indicated in Alleged \$10 Million Bank Fraud Scheme

CHICAGO—October 31, 2013—Four defendants were indicted on federal charges for their alleged roles in a scheme to fraudulently obtain more than \$10 million in loan proceeds from a suburban bank through the sales of 26 gas stations in Illinois, Iowa, Nebraska, and Wisconsin. Two defendants co-owned the gas stations and sold them to purchasers financed by the bank loans and guaranteed in part by the Small Business Administration (SBA). They allegedly recruited purchasers and arranged the loans through a bank loan officer, based on false financial representations, including false tax returns prepared by an accountant, both of whom were also indicted. A fifth defendant was charged separately with tax offenses arising from the bank fraud investigation.

According to the indictment, American Enterprise Bank, based in Buffalo Grove, IL was authorized to process SBA loans on its own if the loan satisfied SBA qualifications and rules, including a requirement that SBA loans could not be used to finance 100 percent of a business investment. As part of the scheme, two of the defendants allegedly recruited purchasers of their gas stations who did not qualify for SBA loans and arranged for loans to be made in whole or in part in the name of the purchaser's relative or friend who had acceptable credit, even though the defendants knew that this straw purchaser would have no role in the gas station or repayment of the loans. In addition, the same defendants caused false information and documents to be submitted to the bank, including false information about employment, income, assets, and liabilities; false tax returns; and false information about the purchasers' contributions of equity.

Gifts were allegedly given to a bank loan officer accomplice, including cars, in exchange for his alleged assistance in processing the fraudulent loans.

Source:
FBI, Northern District of Illinois

Fraud Awareness Week Casts Spotlight on White-Collar Crime

Lowers Risk Group shares articles and resources designed to help organizations understand best practices of fraud prevention and fraud risk management. Below, please find a blog excerpt:

In its *2012 Report to the Nations on Occupational Fraud and Abuse*, the Association of Certified Fraud Examiners (ACFE) found that:

- ⇒ **Fraud schemes are extremely costly.** The median loss caused by the occupational fraud cases in the ACFE study was \$140,000. More than one-fifth of the frauds involved losses of at least \$1 million.
- ⇒ **Schemes can continue for months or even years before they are detected.** The frauds in the study lasted a median of 18 months before being caught.
- ⇒ **Occupational fraud is a global problem.** Though some findings differ slightly from region to region, most of the trends in fraud schemes, perpetrator characteristics, and anti-fraud controls are similar regardless of where the fraud occurred.
- ⇒ **Small businesses are especially vulnerable to occupational fraud.** These organizations are typically lacking in anti-fraud controls compared to their larger counterparts, which makes them particularly vulnerable to fraud.
- ⇒ **Tips are key in detecting fraud.** Occupational frauds are much more likely to be detected by tip than by any other means. This finding reinforces the need for promoting awareness to foster an informed workforce.

About the ACFE—Founded in 1988, the ACFE is celebrating its 25th anniversary as the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Together with more than 65,000 members, the ACFE is reducing business fraud worldwide and inspiring public confidence in the integrity and objectivity within the profession. For more information, visit www.ACFE.com.