“Fraud in the Work Place”
and
“What to do when you find it.”

Colin G. Parcher, CFE
Parcher Consulting Limited
www.parcher-consulting.co.uk
0794 936 5269
Who Am I

• Private Fraud Consultant – Parcher Consulting Ltd. London UK

• Law Enforcement for 35 yrs
  – 23 ½ with city police in BC and Ontario Canada
  – 12 with Government Regulatory and Criminal Investigations

• Four years as President of the Vancouver Canada Chapter, ACFE

• Vice - President (2 years)

• Seven years on the Vancouver Board of Directors

• Currently on the Board of Directors UK Chapter
My Objectives

- Present an overview of employee theft and/or fraud.
- Increase awareness of employee theft and/or fraud.
- Provide some tips for detecting the dishonest employee.
- Provide some advice on what to do when you uncover employee theft and/or fraud.
- Review some real cases for what went wrong both UK and Canadian based.
Fraud Act 2006

There were eight offences under the **Theft Acts 1968** and **1978** which were based on deception.

- All eight deception offences have been abolished.
- The **Fraud Act 2006** replaced the eight crimes with one new offence of fraud and one new offence of dishonestly obtaining services.
- The common law offence of conspiracy to defraud has not been abolished, but there have been sustained calls for it to be.
Fraud - the Offence

In the UK the Fraud Act 2006 sets out 3 ways to commit fraud:

• S2. By false representation
• S3. By failing to disclose information
• S4. By abuse of position

Penalty:

• Summary - Imprisonment of 12 months, a fine of the statutory minimum* or both
• Indictment – Imprisonment for a term not exceeding 12 years, a fine or both

** Though there slight differences Canada and UK laws are very similar
Related Offences

- Theft
- Forgery (Making a false instrument)
- Using a false instrument
- Impersonation
THE ENEMY WITHIN

• Not all fraud attacks come from the outside.

• Unfortunately, as numerous employers have found – often too late – that their own employees are carrying the profits out the door.

• The perpetrator can be a recent hire or a seasoned employee who sees an opportunity because no one is watching.

• Either way, the fraud activity usually results in both financial loss and wasted staff time spent tracking and documenting fraud-related events.
THEFT vs. FRAUD

When is it Fraud and When is it Theft
Employee Fraud/Theft

A study by the Association of Certified Fraud Examiners (ACFE) estimates that the typical business will lose an estimated 5 to 6 percent of revenues’ from employee theft.

(NOTE: It said “REVENUE” not “PROFIT”)
Employee Fraud/Theft

A study published in the ACFE’s 2010 *Report to the Nations* shows the average employee fraud goes on for 18 months and costs the business $160,000 or £100,000.

Small businesses are more likely to be victimized by their employees and will have an average loss greater than those suffered by larger organizations.
Employee Fraud/Theft

Employee fraud costs billions of pounds a year: ...what’s the risk to your business?

It may be a bitter pill to swallow, but the stark reality is that employee fraud costs UK businesses billion of pounds a year – and it’s a growing problem.

Source: PC Simon Cham from the Metropolitan Police Economic and Specialist Crime Unit SCD6
Employee Fraud/Theft – 2 Keys

- Statistics show that the most employee theft or fraud is not committed by career criminals or repeat offenders.
- Statistics show that longtime employees are more likely to commit employee fraud or theft.
Who could be a Fraudster

Look around:
– anyone could be the fraudster

They don’t have look like a crook
Employee Fraud – What is it?

Employee fraud occurs when a member of staff:

- Dishonestly makes false representation
- Wrongfully fails to disclose information
- Abuses a position of trust for personal gain
- Causes loss to others
Types of Employee Fraud

Employee Fraud can range from:

- Compromising the books, customer or payroll data
- Straight-forward theft
- The submission of inflated expenses
- A completely unplanned attack - An opportunistic moment
- Purely for personal financial gain
Credit union uncovers $1-million insider fraud

Former employee under investigation by police

BY DAVID BAINES
VANCOUVER SUN COLUMNIST

An administration manager at has allegedly embezzled an estimated $1 million from her employer.
Why Internal Fraud
GONE + R Theory

- Greed
- Opportunity
- Need
- Expectation

PLUS

- Rationalization
20 - 60 - 20 Rule

- 20% of employees will commit fraud or theft
- 20% of employees will not commit fraud or theft, no matter what
- 60% is the middle – these we need to control
Fraud Indicators - Warning Signs

- Staff under stress without a high workload - marked personality changes
- Always working late
- Reluctance to take vacation/holidays
- Unexplained wealth or living beyond apparent means
More Warning Signs

- Sudden change of lifestyle

- Customer complaints of missing statements, unrecognized transactions

- New staff resigning quickly

- Cozy relationships with suppliers/contractors
More Warning Signs

• Suppliers/contractors who insist on dealing with just one individual

• Rising costs with no explanation

• Key employees having too much control or authority without audit checks

• Employees with external business interests
Preventing Employee Fraud

- Create a positive work environment
- Implement internal controls
  - Separation of duties
  - Access controls
  - Authorization controls
- Hire honest people
- Pay attention – who are their friends
- Educate your employees
More Preventing Employee Fraud

- Implement an anonymous reporting system
- Perform regular - and irregular - audits
- Investigate every incident
- Lead by example
When Prevention fails

The Corporate Reaction:

• Denial – “Are you sure you haven’t made an error?”
• Disbelief – “It can’t be them; they’ve been here years”
• Distance – “Well, of course, I wasn’t really their boss”
• Cover-Up – “I have a shovel - Can’t we just bury this one?”

• The Truth Dawns – “Hanging is too good for them”

Source: Peter Tickner, MSc FIIA MIIA
Director of Internal Audit Metropolitan Police
Common Pitfalls When Detecting Fraud

- Failure to record details properly at the start
- Failure to secure the evidence promptly
- Assuming evidence is secured by moving it
- Not applying criminal inquiry standards
More Common Pitfalls

• Overlooking computer-based evidence

• Over-enthusiastic examination of computer evidence

• Not using an expert

• Tunnel vision
The Silent Theft

Theft of Time

• Internet Usage
  - how much is too much
  - where do we draw the line
  - the University Experience

• Work hours
  - Is it work time yet or still breakfast time
  - Getting to work vs. starting work - the difference

Managing the problem - How to do it
Case Reviews and the Errors - Canada

• Staff Gone Bad
  – 15 year dental office employee goes bad
  – Chiropractor takes 3 strikes – do we get it yet!
  – Optometrist loses big – long-term employee nets ½ million +
  – The Million Dollar Baby
  – Regina v. Marr

• The Flying Diamond Ring
  – NO WAY – She is my best manager

• The Book Keeper
  – My boss made me do it
  – The paper maze
Case Reviews and the Errors - UK

- Manager with a plan
  - Large international bank
  - Four-person department
  - Nobody was watching
  - Well almost no one

- The Manager and the Organised Crime Group
  - A lot of knowledge
  - A little too friendly
  - Greed takes over
  - Knowing who they are
  - But who are their friends
Manager with a “Plan” - UK

• What Happened
  – Large bank - Small department
  – 25-year employee
  – Authority to authorise and make payments
  – Monitored suspense accounts for 6 months of inactivity
  – Moved the money to another suspense account and waited
  – Moved to money to accounts he was the beneficiary
  – Done himself or through transfer payment instructions

• What Went Wrong
  – Junior employee questioned a transfer payment instruction
  – Manager panicked - it was a mistake and binned the paper
  – Junior collected paper later and monitored the account
  – Guess what he saw there?
Manager with a “Plan” - UK

• Compliance Steps In
  – Search of the desk finds payment transfer forms
  – Computer analysed
  – Poor systems prevent a complete review of time & amount
  – Monitored suspense accounts for 6 months of inactivity

• The Outcome
  – Charged with offences totaling in excess of £125,000.00
  – Six months in incarceration
  – Bank calls his mortgage
  – Evidence in his personal account of a life beyond his means
  – Bank up-grades all systems
  – Changes one person authority for transfers and payments

Too Little – Too Late
Dental Office Loses

• What Happened
  – Small dental practice
  – 15-year dental office employee
  – No internal controls
  – Takes cash only
  – Dental office loses just shy of $250,000

• The Dentists’ Reaction
  – We have no problem. We don’t deal in cash.

• The Investigation
  – Forensic accounting costs
  – The police are preparing charges
Chiropractor Strikes Out

• What Happened
  – Two become one with common account
  – 14-year office employee (E1) goes bad
  – Skims from the common account
  – Second employee (E2) begins stealing from deposits
  – E1 reports E2 who quits, then returns all deposits
  – E1 then discovered to have stolen $15,000+
  – New employee (E3) in relationship with undesirable
  – E3’s partner taking cash from the deposits
  – E3 terminated

• The Investigation
  – Forensic accounting costs
  – Lost revenue
  – Partial Recovery
  – No criminal charges
Optometrist Office Loses Big

• What Happened
  – Office with several optometrists
  – Long-term (+10 year) employee
  – Employee with too much control
  – Takes cash only over a long period of time
  – Optometrist office loses in excess of $500,000

• The Investigation
  – Internal costs
  – Forensic accounting costs
  – Referred to the police

• The Outcome
  – Minimal recovery eaten up by legal and accounting costs
  – After several years still no criminal charges
Regina v. Marr

• What Happened
  – Long-term (10 year) employee
  – Change in banking system after 5 years
  – Sole access to bank accounts
  – Electronic transfer of $913,552.78 to her personal accounts
  – Company operated at a loss
  – No bonuses
  – Long-term employee layoffs
  – Gambling habit = $1,000,000 embezzlement

• The Investigation
  – Internal costs
  – Forensic accounting costs
  – Referred to the police
  – Guilty Plea 4 years plus full restitution
The Flying Diamond Ring

• What Happened
  – Long term employee
  – Reports a scheduled loss – Diamond Ring
  – Receives $6,500 from insurance
  – Staff leaves and reports she is wearing the ring
  – Caught in the act
  – Owner says NO WAY – my best manager
  – Never takes vacation
  – Works late or on weekends
  – The penny falls – over $80,000 missing

• The Investigation
  – Internal costs
  – Forensic accounting costs
  – Referred to the crown
  – Lack of controls so in place no charges
The Boss made me do it

- Small town property management
  - Long-term office employee
  - Total control of all bank accounts and accounting records
  - Created monthly false statements
  - Controlled the information provided to the auditor

- Missing Money
  - Double paydays
  - Kitted between 44 banks accounts
  - Blamed the boss

- The Costs
  - 1.4 Million missing
  - Investigation accounting and receiver alone $500,000
The Manager & Organised Crime

• Building Society Branch in South London
  – Branch manager becomes friends with OCG Member
  – Regular socialization turns into a plan
  – Cementing the relationship OCG dates a branch staffer
  – Controlled the information provided to the auditor

• The Game Plan
  – Target high-worth elderly clients with little money movement
  – Staffer and manager accessed the accounts
  – Information passed on to OCG member and then shared
  – OCG members obtained false ID
  – Visited other branches in different areas
  – Convinced redirection of account information
  – Allowing transfers
The Manager & Organised Crime

• The results
  – In excess on £800,000 was transferred out of accounts
  – Funds laundered through parties in France and West Africa
  – A number arrested
  – Six went to trial – five guilty and received custodial terms
  – Because scope not all were identified
  – Confiscation proceedings still ongoing
  – Unlikely full amount will ever be recovered

• The True Victims
  – The target elderly clients will never recover the funds
  – Or their emotional trauma
Common Theme

• LACK OF CONTROLS
• TOO MUCH CONTROL
• BLIND FAITH
• LETTING THE HEART THINK
• TUNNEL VISION
Prevention

ONE KEY POINT -

• Focus on prevention

NOT

• Detection
Prevention Continued

What to do

- Conduct background checks on new employees as well as promotions to senior positions.

- Make your policies on ethical conduct transparent and known.

- Be sure to measure values and ethics.

- Use an external auditor to review the books and evaluate internal controls.
Prevention Continued

What to do

- Know who has bank account access.
- Perform regular and irregular audits.
- Secure and monitor supplies.
- Make your policies public.
- Treat employees with respect.
- Create a positive culture.
When Prevention Fails

Handling the Evidence

- Work from Copies NOT originals.
- Handle with care – it is fragile.
- Properly tag and mark the documents.
- Leave the computer alone.
- Secure the evidence.
- Use an expert.
Dealing With Computers

- Avoid touching exposed wiring or circuits.

- If it is Off – Leave it Off

- If it is on – note any running applications, photograph the screen & note the date & time.

- If running, unplug it then label the wires and the ports they were removed from.

- Note serial #s and models of all hardware.
Dealing With Computers cont.

• Seize all the components of the system.

• Never turn it on to “Just Check” - you will delete or change files.

• Seize all notepads, sticky notes, CD-ROMs around the computer – Small devices store a lot.

• Store extra hard drives in anti-static bags or paper/cardboard – do not bump or drop.

• Do not transmit on radios when transporting.

Source RCMP Tech Crimes Unit
Employee insiders are a serious problem and organized crime groups are willing to methodically infiltrate a business to fund criminal enterprises.

Are employees who they claim?

When fraud is discovered make sure you have a plan with clear course of action.

Have a clear, written policy that covers vetting of staff and robust whistleblowing.

Have fraud risk assessments and regular reviews.
Questions???

Colin Parcher, CFE
Parcher Consulting Ltd
www.parcher-consulting.co.uk
44 (0) 794 936 5269
colin@parcher-consulting.co.uk
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