

Fraud Report to the Nation

In 2002 a study by the Association of Certified Fraud Examiners covering 663 occupational fraud cases with over \$7 billion in losses concluded:

- ✓ The most common method for detecting occupational fraud was by tips from employees, customers, vendors and anonymous sources.
- ✓ Organizations with fraud hotlines cut their fraud losses by about 50%.
- ✓ Background checks, including interviews, on new employees was the second most important measure to prevent fraud.
- ✓ Small businesses are the most vulnerable to fraud and abuse due to the level of trust that exists within the organizations.

Step 1 Initial Interview

✓ Introduction

- ✓ Simple explanation; relaxed and disarming; get respondent to cooperate; allow respondent to retain dignity.
- ✓ *"We were engaged to assess the risk of fraud in your company, do you mind if we ask you some very specific questions?"*
- ✓ *"I'm gathering information on your overseas vendors. Maybe you can help?"*

✓ Establish Rapport

- ✓ Move closer; engage in "small talk"; solicit information on view and interests.
- ✓ *"Do you believe fraud is a problem for business in general?"*
- ✓ *"In the past, what kind of frauds have been committed against your company?"*

✓ Theme Development

- ✓ Use open ended questions seeking moral reasons or excuses to justify behavior.
- ✓ *"Please explain your company's internal controls regarding the hiring overseas vendors."*
- ✓ *"Sometimes fraud is committed because of financial problems. Is your company currently in good financial shape?"*

✓ Retain Goodwill and Reconfirm Facts

- ✓ Use closed questions generally requiring yes and no responses. Establish opportunity for future contact.
- ✓ *"Let me understand what we've discussed, you're approval was required on all overseas contracts?"*
- ✓ *"May I contact you again?"*
- ✓ *"Is there anything I did not ask you?"*

Step 2 Assessing Deception

✓ Assessment Questions

- ✓ Designed to measure respondent's attitudes towards honesty.
- ✓ *"What should happen to the person that authorized these suspicious contracts?"*
- ✓ *"Has anyone at the company asked you to do anything illegal or unethical?"*

✓ Direct Positive Confrontation

- ✓ Critical for assessing deception. Remain silent after confrontation to observe responses.
- ✓ *"I am required to ask you one important question. Have you committed fraud against the company?"*
- ✓ *"Did you sign the CFO's signature to the overseas contracts?"*

✓ Calibrating

- ✓ Measuring a respondent's verbal and non verbal responses to interview questions, assessment questions and direct confrontation.
- ✓ Look for deceptive behavioral clusters.
- ✓ Behaviorist claim more than half of communication is non-verbal.

✓ Handling Suspect's Passive Mood

- ✓ Presenting alternative questions, such as rationalization, projection or minimization based on themes developed during the interview.
- ✓ *"It's obvious to me you were thinking of business strategies to help the company?"*
- ✓ *"It's clear to me the bank's loan covenants put you into this position."*
- ✓ *"It's not a situation where widows and orphans lost money."*

Step 3 Obtaining Confessions

- ✓ **Baiting Technique** – Use of Deception *Frazier v. Cupp* 394 U.S. 731, 89 S. Ct 1420 (1969)
 - ✓ Non-accusatory questions that imply the possible existence of incriminating evidence.
 - ✓ *“Are you aware Cayman Island law enforcement officials are assisting in gathering evidence in this investigation?”*
 - ✓ *“Did you know forensic accountants with the help of a former employee have started reconstructing the overseas wire transfers?”*
- ✓ **Obtain an Admission**
 - ✓ Clear statement of involvement using leading questions.
 - ✓ *“The results of our investigation clearly indicate you were responsible for arranging the overseas contracts.”*
- ✓ **Handling Denials** – *“I honestly did not do this.”*
 - ✓ Present the suspect with evidence, piece by piece. Using themes developed in the interview to present them with alternatives.
 - ✓ *“This is important, we would not be here unless you were responsible.”*
 - ✓ *“Did you do this because your dishonest or because you were trying to help the company?”*
- ✓ **Overcoming Objections** – *“I could not have done this.”*
 - ✓ Patience is required. Don’t allow the suspect to control the situation.
 - ✓ *“I will give you an opportunity to talk later, for now please listen.”*

1 2 3 5 6 7
Robert S. Johnson
Questioned Signature

Evidence of Natural Writing:

- Smooth, unbroken strokes
- Delicate pressure at beginning and ending strokes
- Misplaced, misshaped T-crossing
- Wide writing and spacing
- Rounded forms vs. angular forms

Robert S. Johnson
Exemplar - Known

Robert S. Johnson
Exemplar - Known

Robert S. Johnson
Exemplar - Known

Robert S. Johnson
Exemplar - Known

Robert S Johnson
Known Signature

1
↓
Robert S Johnson
Traced Forgery
(Pencil Tracing)

- ✓ Pencil marking
- ✓ Baseline alignment

3
↓
Robert S Johnson
Traced Forgery
(Transparent Surface)

2
↖

4
↘

- ✓ Similarity to genuine
- ✓ Blunt starting and ending strokes

5
↓
Robert S Johnson
Freehand Forgery
(Unskilled Writer)

- ✓ Slow broken strokes - Tremors
- ✓ Retouching of strokes

6
↖

7
↓
Robert S Johnson
Freehand Forgery
(Skilled Writer)

- ✓ Drawn appearance
- ✓ Illegible letters