



LANSING CHAPTER OF THE ASSOCIATION OF CERTIFIED FRAUD EXAMINERS

Board Member Address

Greetings, fellow chapter members and fraud fighters!

As we get started in our new fiscal year, I am happy to announce that the board has been busy planning the training opportunities for the upcoming year. Our Fall 2017 conference is scheduled and our Spring 2018 only has a few details that need to be wrapped up (announcement coming soon)!

But, before getting too far ahead, I would like to remind all our members that our annual membership meeting and appreciation golf outing/dinner is Tuesday, August 29! (Please see page 2 for details.) For our new members, this is an opportunity to socialize with the board and fellow chapter members. It is intended as a thank you to all of our members for their support during the past year. I sincerely hope you all will be able to join us for an evening of fun golf (beginners welcome!) and dinner. In addition to the fun and food, we will also be announcing our new board members and electing officer positions.

As always, if you have any suggestions for improvement to the chapter, please feel free to contact me, or any of the rest of the board members. Likewise, if you have questions, or would like information on how you might be able to help out, please let one of us know!

Looking forward to seeing you soon!

Mark Lee

LACFE Chapter Vice President

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Fraud Talk Podcast

Frankenstein Loans: A Monstrous Case of Employee Theft

This month's podcast features an interview with Pamela Mantone, CFE, CPA, CFF, and Director at Elliott Davis Decosimo in Chattanooga, Tennessee, about a credit union employee who funneled more than \$350,000 in fictitious loans into manufactured accounts. This podcast is a product of the ACFE and may be downloaded at <http://www.acfe.com/podcasts/Frankenstein-Loans.mp3>.

UPCOMING EVENTS

LOCAL:

Lansing Chapter of the ACFE – Annual Meeting & Golf Outing

August 29, 2017

Sunfield, MI – Centennial Acres Golf Course

Learn More at http://www.lansingacfe.com/?page_id=86



Lansing Chapter of the ACFE - Fall Fraud Conference

October 12, 2017

Lansing, MI – Michigan Library & Historical Center Forum

Speaker - Tom Golden

Learn More at http://www.lansingacfe.com/?page_id=90

AGA Webinar – Communications/Leadership

September 13, 2017

Lansing, MI – Site to be determined

Learn More at [http://www.lansing-](http://www.lansing-aga.org/EventCalendar/EventDetails.aspx?ItemID=88&mid=24&pageid=22)

[aga.org/EventCalendar/EventDetails.aspx?ItemID=88&mid=24&pageid=22](http://www.lansing-aga.org/EventCalendar/EventDetails.aspx?ItemID=88&mid=24&pageid=22)

AGA Fall Professional Development Conference

September 19, 2017

Lansing, MI – Michigan Library & Historical Center Forum

Learn More at [http://www.lansing-](http://www.lansing-aga.org/EventCalendar/EventDetails.aspx?ItemID=80&mid=24&pageid=22)

[aga.org/EventCalendar/EventDetails.aspx?ItemID=80&mid=24&pageid=22](http://www.lansing-aga.org/EventCalendar/EventDetails.aspx?ItemID=80&mid=24&pageid=22)

NATIONAL:

2017 ACFE Law Enforcement & Government Anti-Fraud Summit

October 30, 2017

Washington, D.C.

Learn More at <http://www.acfe.com/fraudsummit2017.aspx>

Effective Report Writing for Fraud Examiners

November 1, 2017

Chicago, IL

Learn More at <http://www.acfe.com/events.aspx?id=4294998132>

Government Fraud

November 2, 2017

Chicago, IL

Learn More at <http://www.acfe.com/events.aspx?id=4294998133>

If you have an event that you would like posted in our newsletter or if you wish to share an article, please contact Melanie Marks at lacfemrmarks@gmail.com

LACFE MAY SPRING CONFERENCE OVERVIEW

LACFE held the Spring Conference on May 23, 2017 at Lansing Community College West. The speaker for the Conference was Dennis Dycus, CPA, CFE, CGFM. Mr. Dycus has 39 years of experience in state government with the Office of the Comptroller of the Treasury of the State of Tennessee. In addition, Mr. Dycus has spent 35 years as a CPE trainer and public speaker. The seminar was entitled *Auditing for Fraud*. Overall, the responses from the Conference attendees was very positive. The following are a few of the main subjects discussed:

Six Common Myths about Fraud –

- **Most people will not commit fraud:** Given certain circumstances everyone would commit fraud. For example, to obtain the money to save a dying child or spouse.
- **Fraud is not material:** Materiality is determined by the user of the information. For example, in a large corporation a \$100,000 fraud would not be material. However, a \$100,000 fraud would be very material if it involved an average citizen's checkbook.
- **Most fraud goes undetected:** Fraud may go undetected for a time. However, fraud will generally be detected.
- **Fraud is usually well concealed:** Generally, fraud is right in front of us. However, we overlook it by doing the same procedures over and over or by accepting explanations or documentation without question. (See Behavioral Red Flags in Graph 2 below)
- **The auditor can't do a better job of detecting fraud:** According to the 2016 Report to the Nations report by ACFE, only 16.5% of fraud was detected by internal auditors and a mere 3.8% by external auditors. (See Graph 1 below)
- **Prosecuting fraud perpetrators deters others:** In reality, a typical fraudster does not believe they will get caught and that they are smarter than ones who did get caught.

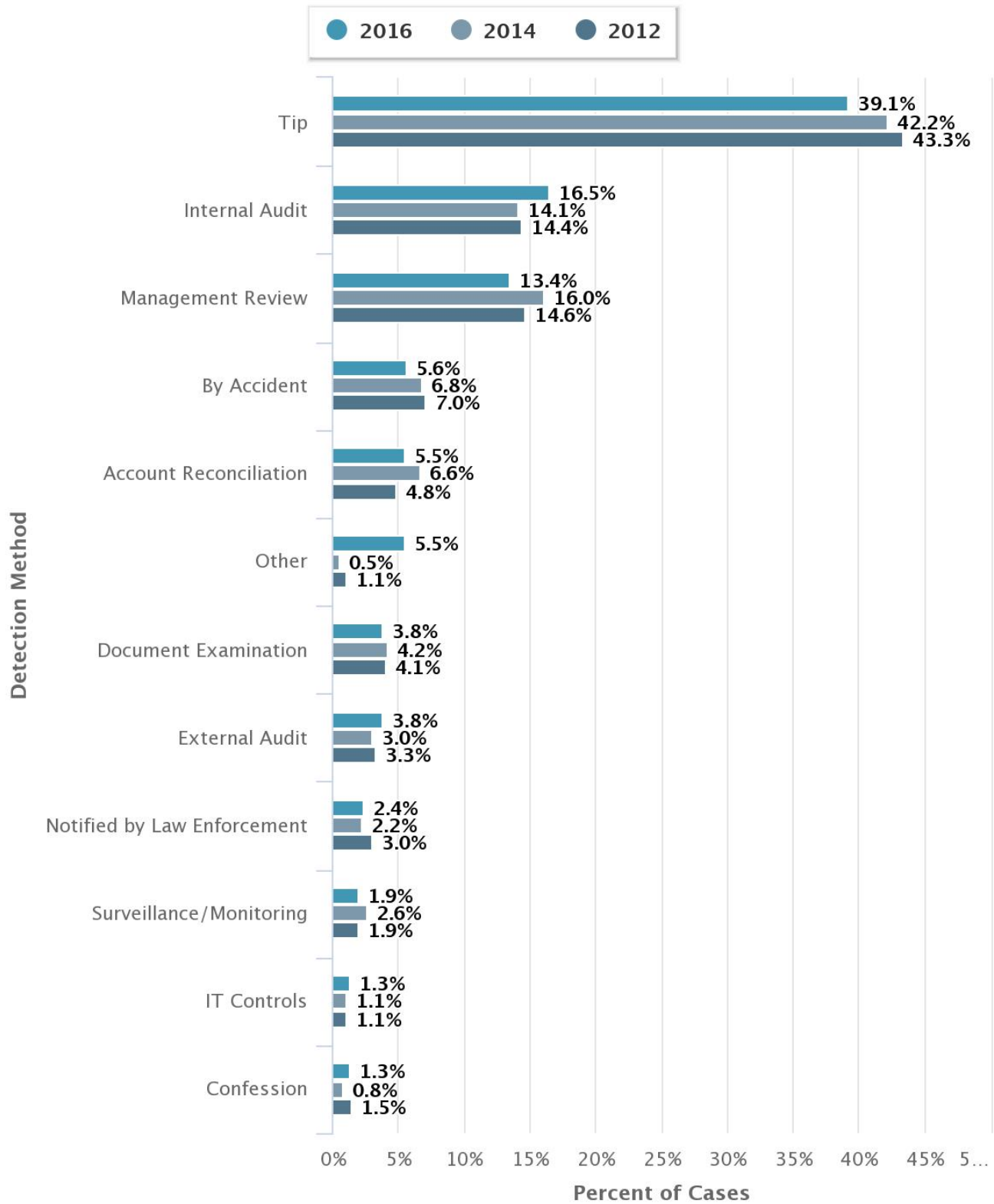
Reasons Auditors Fail to Detect Fraud –

- We mechanically "tick and turn"
- We don't perform the basic traditional audit tests and procedures
- We lack "substantive" testing
- We avoid "High Risk" areas, especially if they are immaterial amounts
- We lack adequate training to recognize fraud indicators
- We tend to accept any reasonable auditee explanation for an audit exception
- We have inadequate audit time budgets
- We *ASSUME*. Go in neutral. Just because we never found fraud at this auditee, doesn't mean we won't now. Likewise, just because we found fraud at this auditee last time, doesn't mean we will again.

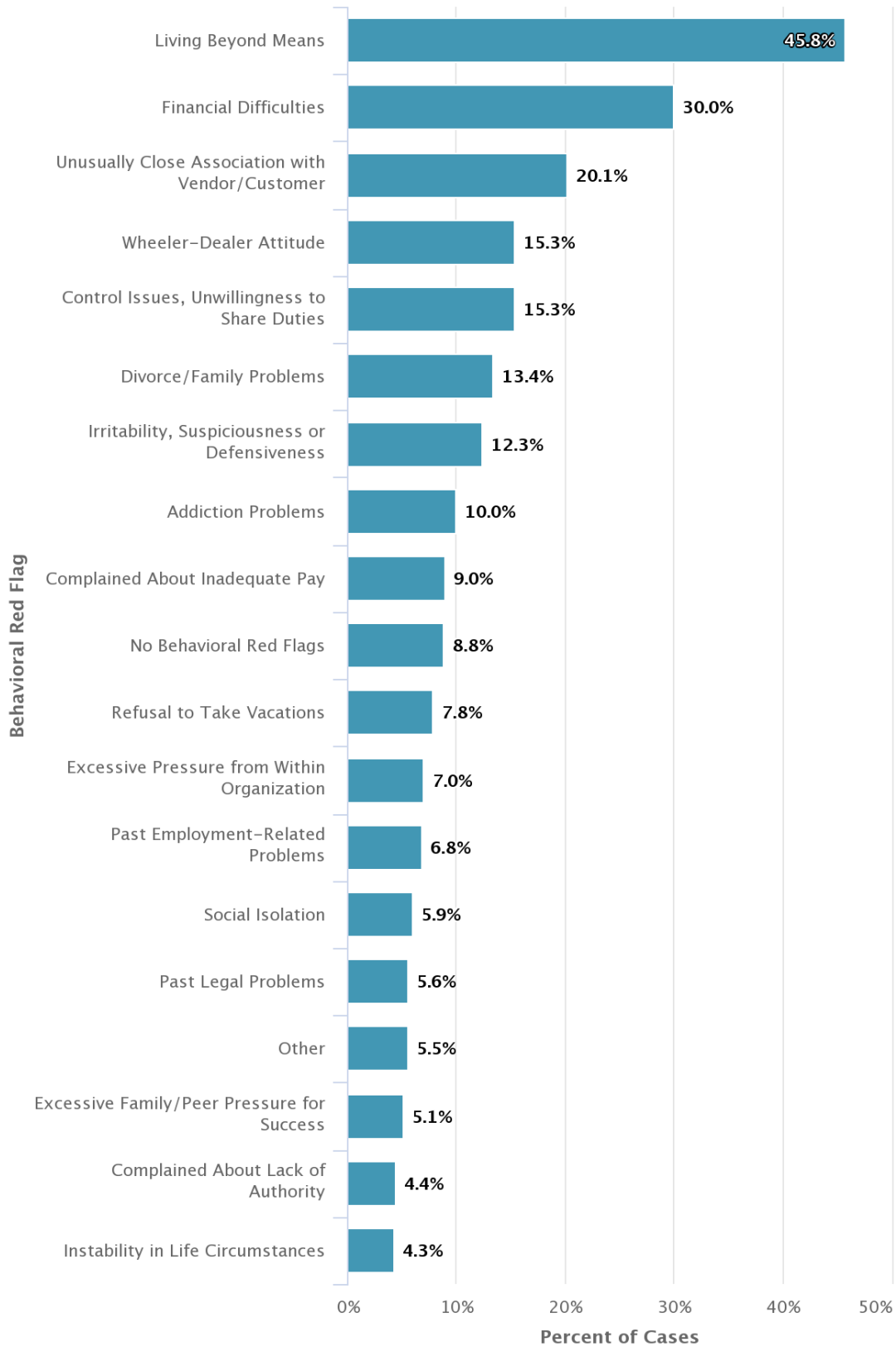
Ten Commandments to Improve Chances of Detecting Fraud –

- Assume anyone can commit fraud
- Use your knowledge of internal controls to "think dirty" and then check it out
- Good documentation does not mean that something happened. It simply means that somebody said that it happened.
- Pay attention to documents, numbers, dates, support, amount, tax, different pens, etc.
- Pay attention to reasonableness of accounting entries
- Pay attention to hints or rumors of wrongdoing
- Check out hunches – Trust your instincts
- Be nosy – don't easily accept explanations, especially if they don't make sense
- Use statistical sampling to force yourself to look at items you would not generally examine
- Look for patterns of unusual transactions

Initial Detection of Occupational Frauds



Behavioral Red Flags Displayed Perpetrators



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Investigator Tip – Positive Persuasion – Motivating the Subject to Tell the Truth



By John E. Reid and Associates, Inc - Recognized as The World Leader in Interview and Interrogation Training - www.reid.com

By David Buckley

Positive persuasion consists of a variety of persuasive statements offered by the investigator to motivate, influence, and persuade the subject to want to tell the truth. The information developed in the interview is used to construct a strategy for the positive persuasion phase and elicit the truth from a subject using logic, sound reasoning, understanding, empathy, rationalization, and minimization. These techniques are utilized after the non-accusatory interview and only when the investigator has developed sufficient investigative information to believe that the subject is involved in committing the crime that is under investigation or is withholding knowledge about the incident under investigation.

Positive Persuasion Positive persuasion consists of seven steps including overcoming resistance, addressing the subject’s fears, and establishing details. The centerpiece of the seven steps is step two, the development of persuasive statements.

There are three building blocks essential to the development of effective persuasive statements. They are: allowing the subject to save face; understanding how and where the subject is shifting the blame for their actions; and understanding what types of behavior the subject perceives as being worse than the crime in question, which will enable the investigator to offer a credible contrast.

The following real-life case example illustrates these three building blocks. A female employee named Mary embezzled \$20,000 from a pharmacy where she was employed as a cashier. She stole approximately \$150 per week in increments of \$50 over a period of three years. Mary rang up false returns on her cash register to cover the money she stole from the register.

Mary was married and had recently given birth to twin boys. Her husband had been laid off from his job for more than a year and was no longer receiving unemployment compensation. During her interview, Mary denied stealing any money from the pharmacy but stated that if someone was stealing money from the pharmacy “they would deserve a second chance depending on what they had to say about it.”

Following are the details of the positive persuasion phase with Mary regarding the theft of the money from the pharmacy. This example will help illustrate how information elicited from Mary in her interview was used in the techniques that helped investigators elicit the truth from Mary.

Building Block #1 Save face. Investigators are most successful in the art of persuasion if they can tap into the subject’s preexisting justifications or rationalizations. These rationalizations will allow the

subject to maintain a credible psychological excuse for his or her actions. The investigator should try to use the same rationalizations revealed during the interview to uncover the perceived justification for the act. This information provides the investigator with credible-sounding justifications that will appeal to the subject's distorted perception of the situation.

In this instance, Mary said that her husband recently lost his job and that they were having difficulty "keeping their heads above water," especially since the twins were born. She also stated that she cashed some personal checks from the funds in the register, even though she knew it was against company policy. Mary also stated that she witnessed other employees cash checks in this manner and did not think the policy forbidding this behavior was being enforced.

By developing these rationalizations in the persuasive statements, the investigator will appear sympathetic to the subject's situation. However, the investigator's words will not legally justify the suspect's behavior. In Mary's case, the investigator said:

"Mary, I understand how difficult things are these days. The economy is tough for everyone. Companies are merging and, as a result, good hard-working people like your husband are losing their jobs through no fault of their own. It's hard to make ends meet when a two-income family becomes a one-income family. Just because a person makes a mistake in judgment does not make that person a dishonest person or a thief. I think the reason honest people like you do this type of thing is because they are thinking about the well-being of their family and sometimes just act out of desperation. However, sometimes we run into people who are simply dishonest and get jobs for the sole purpose of trying to find ways to rip the company off. They will take as much as they can and think of no one but themselves. Now, you don't seem like that type of person to me. In the short time I have had a chance to get to know you, Mary, you seem like a nice person, a loving mother, and a reliable employee. But sometimes life circumstances get the better of us and even the most honest person may make a mistake in judgment and do something that is out of character for them. That's what I would like to think about you, Mary, but I can't know that for sure unless that comes from you."

By appealing to the subject's justification for her actions that she implicitly revealed in earlier answers about her struggles, that statement could motivate the subject to want to tell the truth.

Building Block #2 Shifting the blame. Eliciting the truth from a subject requires a shift in blame so that the burden is taken off of the person who committed the crime. During the interview, Mary stated that she witnessed other employees cashing personal checks from the register funds and that the company did not strictly enforce their policy prohibiting this behavior. The subject's perception suggests that she would not have embezzled any money from the company if it was more diligent in enforcing its own policies. Her perception also suggests that she would not have embezzled for three years if the company had had better auditing controls and discovered the fraud earlier. She is essentially blaming the company's poor controls for her embezzlement. The statements she made in the interview imply that it's the company's fault. The interviewer appealed to this shift in blame by making a statement similar to the following:

“Mary, I’m sure when you started working here the last thing you thought you would do is take money without authorization from the company. But after you started working here and saw other people cashing personal checks with the register funds, you decided to do that as well. If the company had been more diligent about enforcing their policies forbidding employees from cashing personal checks with register funds, you would have never started doing this. I think there was a time when you needed the money and had forgotten your checkbook at home. My guess is you took the money and planned on putting a check in the following day; but, since no one said anything about there being a shortage in the drawer, you just never got around to putting that check in to cover the money you removed. If the organization had better controls you would have not continued to do this for three years. This should have been caught early before things got out of control.”

Building Block #3 Credible contrast. Building block number three is for the investigator to offer a credible contrast, or a crime more serious than the issue under investigation. During Mary’s interview she acknowledged cashing personal checks from the funds in the register and witnessed other employees doing the same. There is a strong likelihood that Mary was trying to convince herself that she was going to try to pay the money back some day because, without this rationalization, she would have to look at herself as a thief. Another credible contrast, given the nature of this investigation, would be to compare stealing money to stealing drugs from the pharmacy and then selling them on the street. Using this information the investigator developed the following statement:

“Mary, after your husband was laid off, you probably had a hard time paying your bills and needed extra money just to makes ends meet. I think at the beginning you had the intention of paying the money back, but things just got away from you and before you knew it you were in too deep. Sometimes we just get into bad habits and we don’t know how to stop ourselves. The important thing is to understand what type of person you are, Mary. Are you an honest person who just made a mistake in judgment, or are you a thief who got the job here to rip this place off and maybe get involved in more serious things like taking drugs from the pharmacy? I have talked to employees working here at the pharmacy in the past who were taking drugs from the pharmacy and selling them on the street. I certainly don’t think you are that type of person, Mary, but these days you just don’t know for sure. I am doing everything I can to give you a chance to straighten this situation out and explain what your intentions were. I think you always had the intention of paying the money back, but things just got away from you—and now you’re scared and don’t know what to do.”

Motivating a subject to want to tell the truth is at the heart of these investigative techniques. Most subjects do not think of themselves as bad people regardless of the seriousness of their offense.

Mary, for instance, does not want the company to think she is a thief who got the job at the pharmacy just to embezzle \$20,000. Mary hopes the company will understand that she is an honest person and good employee who used bad judgment, due to circumstances beyond her control.

Most people perceive themselves as the victim and want someone to understand their pain. Mary knows she is not going to simply walk away and not suffer any consequences. She knows that she is going to face consequences, but she would like the decision makers to understand the extenuating events before any decision is made.

It should be stated that investigators cannot absolve the subject of wrongdoing. Investigators should also make it clear to the subject that they are not promising any leniency. A statement such as the following should be made by the investigator.

“Mary, I’m not going to sit here and tell you that just because you tell the truth and say you are sorry that nothing will happen to you. I would be a liar if I said that. I’m not the one who is going to make that decision. However, the decision makers will make the decision based on the information I put in my report. The only information I have in my report at this point are the cold, hard facts that show what happened. I don’t have anything regarding your explanation or whether you are sorry about this. That has to come from you. I think you understand at this point that the decision makers are going to have to make a determination with or without your explanation. Mary, what frame of mind do you want them to be in when they make that decision—thinking the best about you or thinking the worst?”

Shortly after the investigator provided this explanation, Mary confessed to the crime. The investigator explained that the purpose of these investigative interview techniques is to resolve a situation as quickly as possible while getting all the underlying facts necessary to the investigation. Using positive persuasion to motivate a subject to desire to tell the truth allows a person to acknowledge their wrongdoing and at the same time avoid humiliation and maintain some dignity. It is a humane way to deal with the difficult problem of work-related misconduct with an employee. Subjects may not remember all that the investigator said, but they will remember how they were treated.

This Investigator Tip was developed by John E. Reid and Associates Inc. 800-255-5747 / www.reid.com.

QUOTE OF THE MONTH

"Success is not final. Failure is not fatal. It is the courage to continue that counts."

Winston Churchill