

Introduction

Fraud is a silent crime. There are no exciting chase scenes, no smoking guns and no bleeding victims. But fraud is a crime nonetheless. And worldwide, fraud—in all its forms—costs trillions of dollars in damage. It costs you, too.

Millions of people and thousands of organizations are victims of every conceivable kind of scam. If you doubt this, ask yourself this question: Have you ever been the victim of a robbery? Although some people have, most have not. Then ask yourself another question: Have you ever been ripped off? Nearly everyone has. If so, you are a victim of fraud.

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Here are just a few examples of fraud:

- A telemarketer calls your home and claims that you have won an “expensive vacation” for free. The only hitch is that you must pay a \$99 “processing fee” to claim your prize. Once enough money is received from victims like you, the telemarketer simply disconnects the telephone and disappears. You lose.
- An executive of your company, fearful that the enterprise’s earnings will be lower than expected, overstates the company’s assets to show false profits. When the scheme comes to light, the company’s reputation is ruined and it goes out of business. Thousands of people—including you—are put out of work. You lose.

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- At your bank, a con artist deposits several hundred thousand dollars worth of forged checks into an account and later withdraws the money, defrauding the bank. The financial institution raises its service fees to all customers in order to cover the loss. You lose.
- A military contractor for the federal government falsifies tens of millions of dollars in reimbursable costs. Tax rates go up. You lose.
- At your company, a co-worker embezzles money. As a result, profits are lower than they should have been, so the company delays giving employees raises. You lose.

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Introduction

As you can see, all of us pay for fraud in both direct and indirect ways. But that does not mean the public is defenseless. Indeed, there is a lot all of us can do to avoid being victims of fraud. It starts with being well informed. Because the more you know about fraud, the less likely you are to be duped. We cited several examples of fraud in the previous paragraphs. Let us define exactly what "fraud" is.

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Occupational Fraud Offenders

The three people you saw in the video are all actual fraud offenders, convicted of their crimes. They represent the three levels of employment in organizations: top executives, managers, and workers. It is important to understand that every employee in the company can—under the right circumstances—commit fraud. And honesty has nothing to do with rank. As recent headlines remind us, top executives—when they are dishonest—can cause enormous damage.

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Occupational Fraud Offenders

Sam

Sam Antar was the chief financial officer for Crazy Eddie's Electronics, a chain of stereo and television stores on the east coast. Sam was also the nephew of the store's founder and CEO, Eddie Antar. When the company started experiencing financial difficulties, Sam and Eddie—along with others on the management team—decided to purposely overstate the company's assets and profits.

In short, they came up with a scheme to "cook the books." Their plan involved over-counting the store's merchandise inventory, then concealing it from the company's independent auditors. The fraud worked until Eddie Antar's wife revealed the scheme to lawyers during her divorce from Eddie.

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Occupational Fraud Offenders

Sam (continued)

Later, investigators discovered the company had overstated its assets by nearly one hundred million dollars.

Eddie Antar and several executives from the company were convicted of fraud, and Antar spent ten years in prison for his crimes. The electronics chain was forced into bankruptcy and thousands of totally innocent employees working there lost their jobs.

Could anything have been done to avoid this disaster? Yes. The Crazy Eddie's fraud went on for several years and was made possible only because of the assistance of others who worked there.

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Occupational Fraud Offenders

Sam (continued)

For example, when employees were counting the inventory, Eddie had asked them to vastly overstate the quantity. Even though these workers did not know exactly why, they certainly knew what they were doing was wrong.

Yet none of them came forward to tell the board of directors, the auditors, or the audit committee what happened. Had they done so earlier, the fraud could have been stopped before it involved tens of millions of dollars.

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Occupational Fraud Offenders

Sam (continued)

There is a good reason that employees do not come forward: They are afraid—afraid they will lose their jobs for speaking up; afraid that they will wrongly accuse someone of something; afraid they will be dragged into court; afraid they will be called a "whistleblower" or "squealer."

Although these are all understandable reasons for remaining silent, the alternatives are equally unattractive: compromising your own ethics by working for a crooked organization; contributing to the erosion of the company's values; allowing crime to go on right under your nose; possibly being dragged into illicit activities yourself; losing your reputation; losing your job.

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Occupational Fraud Offenders

Daniel

Daniel was the financial manager for a company in the southwestern United States. His reason for stealing several hundred thousand dollars is all too common: Daniel had trouble living on what he was making. He and his wife had a long history of being poor money managers. Ironically, this highly trained accountant could easily manage the company's money, but not his own.

In Daniel's case, he never really intended to become a thief. Few workers do. Daniel started off by forging one check. He felt he had to; the Internal Revenue Service was threatening to attach his wages.

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Occupational Fraud Offenders

Daniel (continued)

So he stole enough money—about \$10,000—to pay his current debt. But in Daniel's mind, he was not really stealing; this was an immediate financial problem that had to be corrected. He would get over the current crisis and pay the money back.

But that did not happen. Instead, the problem that led Daniel to steal in the first place—poor money management—was not helped at all by stealing money. And once Daniel stole ten thousand dollars and got away with it, he was simply too tempted to stop. Several hundred thousand dollars later, Daniel knew it was only a matter of time until someone discovered what was going on.

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Occupational Fraud Offenders

Daniel (continued)

Daniel made a difficult but logical choice: he would stop stealing and turn himself in. But first he told his wife. In his words, it was the hardest thing he ever had to do. Daniel cried real tears at the thought of going to jail. But even worse, his children would grow up knowing their dad was a thief and convicted felon.

Because Daniel cooperated with authorities, he will spend two years in prison and he will have to pay all the stolen money back with interest. Had he been discovered first, the judge may have thrown the book at him. But the law generally has a history of being more lenient with those who voluntarily acknowledge their wrongdoing and throw themselves on the mercy of the court.

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Occupational Fraud Offenders

Daniel (continued)

In Daniel's case, his sentence could have been ten years in prison, substantial fines, probation, and restitution. It took courage to come forward, though, and that was taken into consideration.

The simple message here is that several wrongs do not make a right. If you know someone is committing fraud, encourage him or her come forward. The longer and more expensive the fraud, the more the punishment can be.

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Occupational Fraud Offenders

Maureen

You certainly would not know Maureen was an embezzler by looking at her or talking to her. She is a mother and wife. She is active in her community and her church. There is nothing in her background to suggest that she would ever steal. Maureen is a proud person. She was proud of her husband, her job, and her family.

As a matter of fact, it may well have been that pride was Maureen's downfall. She had worked as a teller for a local bank in the Midwest for several years. Maureen prided herself on the job she did, and over the years, she was rewarded with more and more responsibility. With responsibility comes trust. But Maureen could not handle the trust placed in her.

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Occupational Fraud Offenders

Maureen (continued)

Like Daniel, Maureen started off stealing small amounts of money to help pay bills. And like Daniel, Maureen convinced herself that she was only "borrowing" funds until she got over her current financial problems. But Maureen admits that she and her husband had fallen in a trap of "trying to keep up with the Joneses." They wanted the nicest house on the block, a new car, and everything that went with it.

The only problem: They could not afford the nicest house or the newest car. But rather than recognize that fact, Maureen fell victim to temptation. After all, she saw and handled tens of thousands of dollars every day. In her mind, the bank would hardly miss the few hundred dollars she took here and there. But as it turns out, the bank did miss the money.

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Occupational Fraud Offenders

Maureen (continued)

Maureen was caught by a surprise audit. She knew the moment the auditor told her that he wanted to count her money: she was sunk. The auditor informed Maureen's supervisor, who confronted her. She admitted what she had done, but was astonished at how the money she had taken had added up. Maureen thought that—at the most—she had "borrowed" a couple of thousand. She was off by \$17,000 in total; she had stolen over nineteen thousand dollars. In reality, Maureen probably did not really want to know how much she had taken.

Because Maureen was a first offender and was pregnant with her second child, the judge gave her a break.

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Occupational Fraud Offenders

Maureen (continued)

Rather than go to jail, Maureen was ordered to pay the money back and serve ten years' probation. As you heard her say, her life is changed forever. Maureen will always be required to tell certain people that she is a convicted criminal. She is not working now, and her chances of ever being entrusted with money again are slim.

Understanding Fraud and Abuse

Black's Law Dictionary defines fraud as:

"All multifarious means which human ingenuity can devise, and which are resorted to by one individual to get an advantage over another by false suggestions or suppression of the truth. It includes all surprise, trick, cunning or dissembling, and any unfair way by which another is cheated" (emphasis added).

Notwithstanding the legalese, the important point is that cheating—if it involves money or property—is fraud. Although there are many kinds of fraud, our emphasis in this training program concentrates on the kinds committed by companies and the people who work for them.

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Understanding Fraud and Abuse

According to a study by the Association of Certified Fraud Examiners, internal fraud may cost as much as \$600 billion a year—about \$4,500 for every worker. The following are some of the ways that employees at all levels cheat their companies:

- Stealing money or merchandise
- Taking kickbacks or bribes from suppliers or customers
- Falsifying internal reports
- Claiming overtime when it is not due
- Providing false financial information on the company to the government, creditors or investors

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Understanding Fraud and Abuse

- Cheating on expense accounts
- Stealing and selling company trade secrets
- Giving friends or relatives unauthorized discounts on company merchandise or services
- Using the company's computers and software without permission
- Claiming workers compensation for an injury that did not occur
- Cheating the government out of tax revenue
- Withholding information from auditors, investors and creditors about major events that could impact the company, such as obsolete products or pending lawsuits

Understanding Fraud and Abuse

The list goes on. In addition to these examples, consider the cost to companies from employees who chronically engage in excessive absenteeism; pilfer such items as stationery, postage and computer supplies; falsify time and attendance information; or knowingly engage in a whole host of other counterproductive behaviors. Although these activities can constitute fraud, they are more commonly called "abuses."

Employees owe a duty to their companies to avoid conduct that would be detrimental to the company. In other words, fraud harms both the company and the people who work there. By the same token, the company owes a duty to its employees to be honest in its activities.

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Understanding Fraud and Abuse

The kinds of offenses we have described are known as "occupational frauds." More precisely, *occupational fraud* is:

"The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets."

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Understanding Fraud and Abuse

There are four elements to occupational fraud:

- The activity is clandestine (done in secret)
- It violates the employee's duty of trust to the employer
- It is committed for the purpose of direct or indirect financial gain, and
- The employing organization loses assets, revenues, or reserves

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How Fraud Affects You

You can see that any fraud within your company affects you directly in your wallet. But there are some other ways that fraud impacts you, too. That is because honest organizations do not pay the hidden "fraud tax." If the average company loses six percent of its revenues to occupational fraud, by being above average a company can be more competitive.

For example, if the losses to occupational fraud in Company "A" are six cents on the dollar but in company "B" the losses are only two cents, it means that Company "B" can offer the same goods or services at a lower price. That is good for the consumer, for the company, and for the people who work there.

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How Fraud Affects You

Consider another bit of easy math. If an employee in a department store stole only one sweater and the company's profit on the sweater was ten percent, it means that the department store must sell ten more sweaters to make up for the one stolen. That makes everyone's job harder.

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How Fraud Affects You

Occupational fraud also affects the company's reputation and the morale of the people who work there. Remember the giant international accounting firm of Andersen? Because of the criminal acts of a relatively small number of employees, thousands of innocent workers were laid off. Many have had trouble getting similar jobs because of whom they worked for. Rather than being proud of their company, many are ashamed. Regrettably, corporate misdeeds invariably tar completely innocent people.

Finally, fraud deeply affects those who commit it. Whether the person goes to jail or not, many people are impacted. For example, Daniel's wife and child had nothing to do with him stealing. But they will pay for it nonetheless. The same goes for Maureen and Sam's families. It is an inescapable fact: for every criminal, there are many more innocent victims.

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How Fraud Affects You

Occupational frauds are most often committed by people with no prior criminal history. Because of prison overcrowding and the non-violent nature of fraud, some people can avoid jail time. But not all do. And forget the myth of "country club" prisons for white-collar offenders. Because of the rate of fraud, judges are trying to send a message that crime does not pay by sentencing fraud perpetrators to long sentences involving hard time.

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What Causes People to Act Dishonestly

You know from life's experiences that there is no such thing as someone who is honest all the time. We all bend the truth; it is simply human nature. Although there is a small minority of people who are inherently dishonest, behaviorists claim that people lie for two basic and genetically programmed reasons: to receive rewards or to avoid punishment.

When we lie to our superiors about how we really feel about them ("Boss you're really a great guy." But what we may mean is, "Boss, you're really a jerk.") we do so for self-protective reasons. If we tell the boss our true feelings, he will punish us or fail to reward us.

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What Causes People to Act Dishonestly

While all of us may lie about small things, fraud is something else. Telling your boss a lie is not necessarily the same thing as committing fraud. And we know enough about occupational fraud to say that there are usually three factors that make the difference in whether someone will commit fraud—regardless of their background or position in the company.

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What Causes People to Act Dishonestly

A. The Fraud Triangle

As Dr. Cressey summarized in the video, occupational offenders employ motive, opportunity and rationalization to further their illicit activities.

1. Motive

Admittedly, most employees commit fraud because they think they need the money. Sam Antar needed money to keep his company alive. Daniel needed money to keep the IRS from his door. And Maureen needed money for that nice house and new car.

But Dr. Cressey said it is more than simply needing money. He called it an "immediate, unsharable financial need." The key here is "unsharable."

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What Causes People to Act Dishonestly

A. The Fraud Triangle

1. Motive (continued)

While nearly all of us have financial needs, most of the time they can be satisfied through legitimate means. If you need a new car and lack the money, the bank can finance it for you. Should you need money for your kid's college, there are scholarship programs available.

But in Sam Antar's case, he felt that admitting his company was doing badly would be an adverse reflection on him personally, as if he would be blamed for the electronic retailer's financial woes. Faced with admitting failure or faking it, Sam Antar and the other executives in his company took the crooked way out.

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What Causes People to Act Dishonestly

A. The Fraud Triangle

1. Motive (continued)

With Daniel, he thought that if the IRS attached his salary, his employer would fire him. And not without reason: The failure to be responsible with his own finances would certainly give the company pause when allowing him to manage its money. In Maureen's situation, it was a matter of pride. She hated arguing with her husband about finances. But evidently not as much as she hated the thought of her neighbors and friends knowing the family was not well off.

In each one of these cases, the employees in question thought fraud was a way out. We of course know that is untrue—quite the opposite. It simply makes the situation worse.

What Causes People to Act Dishonestly

A. The Fraud Triangle

2. Opportunity

The second element in the fraud triangle is opportunity. Sam, Daniel and Maureen all had the opportunity to take advantage of their employers. The opportunity to commit fraud in a company is governed by a person's position. Maureen's frauds, because she was a teller, were in the thousands of dollars. At the other extreme, Sam's misdeeds—because he was a high level executive—were in the tens of millions.

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What Causes People to Act Dishonestly

A. The Fraud Triangle

2. Opportunity (continued)

But sometimes opportunity is not all it seems. Although each one of these people thought they could get away with it, none did. Maureen's case provides the simplest example. She believed she could conceal her scheme, but she did not count on the auditors examining her work closely. And Sam and Daniel thought they could keep their frauds small enough to avoid detection. But greed being what it is, it was only a matter of time.

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What Causes People to Act Dishonestly

A. The Fraud Triangle

3. Rationalization

Rationalization is another way of saying that the end justifies the means. Of course, we know that is not always the case. All three of the criminals you saw in the video think of themselves as honest, regardless of the fact that their frauds collectively cost their innocent victims millions of dollars. And irrespective of their criminal records, they still think of themselves as being as honest as the next person. Of course, they are only fooling themselves.

What happens is that when the elements of need and opportunity come together, some people look for a justification to be dishonest. But they do not want to call themselves liars and thieves, so they attempt to make themselves into the victim.

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What Causes People to Act Dishonestly

A. The Fraud Triangle

3. Rationalization (continued)

The following are some of the more common excuses people use to commit fraud.

- *I was only "borrowing" the money temporarily.*
- *This is not much money; the company won't really miss it.*
- *As an executive, it is my job to save the jobs of my employees.*
- *Everybody does it.*

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What Causes People to Act Dishonestly

A. The Fraud Triangle

3. Rationalization (continued)

- *They owe it to me.*
- *I'll stop once I get over this financial hump.*
- *The company mistreats me.*

As you can see, these excuses—when you look behind them—all fall apart. If an employee wants to "borrow" money from the company, he or she should not do it secretly. And if every employee in the company took the attitude that the money will not be missed, the company wouldn't last very long at all. An executive's job is to lead, not deceive.

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What Causes People to Act Dishonestly

A. The Fraud Triangle

3. Rationalization (continued)

Fraud does not save jobs; it costs them. Everybody doesn't commit fraud. And the company does not owe it to anyone to let them cheat. People who start committing fraud rarely stop; the behavior becomes addictive. And if the company mistreats an employee, there's a last-ditch answer: get another job.

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What Causes People to Act Dishonestly

B. Retribution

A few employees, rather than committing fraud to meet immediate financial needs, do so out of a sense of rage. For reasons known sometimes to only them, they look upon their employer as the enemy. They do not just steal, though. The same employees take advantage of the company in every conceivable way.

They show up late and leave early from work, they are excessively absent from the job, and they steal little things: stamps, stationary, calculators, hand-held computers, merchandise and the like.

And not surprisingly, they are not really mad at this particular employer. They are just mad. You will invariably find that this kind of employee was mad at his or her last job, too.

Some Warning Signs of Occupational Fraud

As the stories of Sam, Daniel and Maureen illustrate, there are often subtle (and not-so-subtle) clues that fraud is afoot. By being aware of what these warning signs are, you can be alert to them and possibly help avert a loss from fraud in your company.

A. Accounting Irregularities

If the fraud is big enough, it will usually show up somewhere in the company's books and records. For example, when Sam's company added millions of dollars in phony inventory, it made the chain's profits look abnormally high. But at the same time the company was showing record profits, it did not have enough cash on hand to sustain its operations. One of the first clues to trouble is a company showing record "profits" but no money.

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Some Warning Signs of Occupational Fraud

A. Accounting Irregularities (continued)

Daniel's fraud, although it was not as large as Sam's, also showed signs in the company's books. Daniel's scheme wasn't very elegant. He would simply make out checks to himself and forge a company official's signature. On the company's books, Daniel was recording the checks as if they were being paid out to consultants. But he knew the company's consulting expenses had never been that high, and that sooner or later, someone would figure out what was going on. That was his major motivation in turning himself in.

Maureen's thefts, although not that large, involved the bank's cash. To conceal her crime, she falsified her daily cash count sheet.

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Some Warning Signs of Occupational Fraud

A. Accounting Irregularities (continued)

She obviously didn't realize that it was just a matter of time until the luck of the draw would mean her money would be counted by surprise. And that is exactly what happened.

B. Rule-breakers

We discussed rule-breakers earlier. In the video, Sam Antar was by far the worst rule-breaker. Not only did he ignore generally accepted accounting principles when preparing the company's financial statements, he did not attempt to hide that fact from his staff. Sam would also routinely violate the retailer's own written set of internal controls for his own purposes.

Some Warning Signs of Occupational Fraud

B. Rule-breakers (continued)

Many employees learned from Sam's bad example: If he violated rules and cheated, why shouldn't they? And cheat they did. The level of theft and abuse in Sam's company was astronomical. Employees also didn't turn Sam in because they feared his wrath. But like in all other frauds, the longer it continued the greater the damage done. In retrospect, nothing was gained and much lost by allowing the fraud to continue.

C. Big Spenders

Although Maureen's spending was not that big, she was clearly spending beyond her and her husband's combined incomes. Maureen knew many of her co-workers well; they were her friends and social contacts, too.

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Some Warning Signs of Occupational Fraud

C. Big Spenders (continued)

They had to wonder how someone of modest means could enjoy such a nice house and automobile. But none of them connected the dots: certainly a nice person like Maureen would not steal. Wrong.

Big spending has led to the discovery of countless fraudsters. Some of the stories border on the absurd: A crooked banker who had the company jet fly to France regularly to bring back chefs to cook special dinners for him and his guests; a clerk for an insurance company that frequently took her co-workers to lunch in a limo; a middle-level supervisor who bought a multi-million dollar mansion adjacent to a golf course.

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Some Warning Signs of Occupational Fraud

D. People With Financial Problems

Just like big spenders, people with financial problems may be more motivated to commit occupational fraud. While most of us with money woes do not steal, some do. In one case for example, two employees worked in the same office. One of the workers could ill-conceal the fact that she was receiving constant telephone calls from creditors demanding money. But one day, the calls simply stopped. Later, the co-worker discovered why: She saw her colleague steal a company check and put it in her purse. Even though it was difficult to do, the co-worker turned her friend in.

What You Can Do to Prevent Occupational Fraud

Last—but certainly not least—every employee, regardless of rank or position, can help reduce the extreme costs of fraud. Indeed, unless a majority of employees is in favor of deterring fraud and actively participate in the effort, success is highly unlikely. Here are some of the things you can do.

A. Help Create a Culture of Honesty

Fraud starts with dishonesty; while not all liars are fraudsters, all fraudsters are liars. Let's face it: Honesty really is the best policy, not just in business, but also in life. Not only that; lying teaches us a valuable lesson—deception takes a lot of work. Many people who start committing fraud must continue to lie and falsify records in an attempt to avoid discovery. As the saying goes, "O, what a tangled web we weave, when first we practice to deceive."

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What You Can Do to Prevent Occupational Fraud

A. Help Create a Culture of Honesty (continued)

Helping create a culture of honesty doesn't just involve fraud. It starts with an individual ethical decision to be truthful—truthful with customers, truthful with your fellow workers, truthful with your company's leaders. But there's even more to it. You must actively support efforts to encourage honesty (and discourage dishonesty) by your words and deeds. Others in the company will learn from the example you set.

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What You Can Do to Prevent Occupational Fraud

B. Be Aware of Warning Signs

As discussed earlier, there were warning signs of possible fraud in the cases of Daniel, Maureen and Sam. That is not unusual. But the people around them may not have recognized the clues. Now that you have learned some of the red flags of fraud, you must be aware of them. That certainly does not mean being suspicious of the people you work with—far from it; the majority of your co-workers are honest.

By the same token, you shouldn't look at everything with rose-colored glasses. If you observe something that does not seem right, stop long enough to consider the situation. Then if you still have doubts or suspicions, it is time to do something.

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What You Can Do to Prevent Occupational Fraud

C. Report Irregularities

Admittedly, it is hard to report on someone, especially if that person is your colleague. Moreover, if you have no hard evidence, there is the matter of a wrongful accusation. But who said that doing the right thing is always easy?

Even though reporting irregularities is sometimes difficult, the alternatives are even more unattractive. We know now that in the cases of Sam, Maureen and Daniel, others around them either knew of or suspected illegal activities. The failure of other employees to act—in all three cases—had even worse consequences.

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What You Can Do to Prevent Occupational Fraud

C. Report Irregularities (continued)

You need to report at least two specific instances: (1) if someone you work with asks you to do something that you think is illegal or unethical, and (2) if you suspect that someone in the company—regardless of rank or position—is committing fraud or abuse.

In reporting allegations of suspected wrongdoing, you do not have to furnish your identity. Most companies have a "hotline" or other reporting mechanism where you can furnish information without identifying yourself. Understand, though, that if you have personally witnessed an illegal act (for example, if your supervisor instructed you to make false entries in the company's books), it may not be possible to prove the allegation without you being a key witness.

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What You Can Do to Prevent Occupational Fraud

C. Report Irregularities (continued)

If your company does not have a hotline—or if you prefer not to use it—you have other choices. You could write an anonymous letter to the proper official in your company. (In the case of an employee, the matter would normally be reported to that person's immediate supervisor. Should the allegation involve the company's top management, it can be reported to the board of directors, the board's audit committee, or to the company's independent auditors.)

In still other situations, it might be advisable to share your concerns with the company's internal auditors or anti-fraud specialists. But the important thing is for you to report your suspicions to someone in authority if you truly believe something is amiss.

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What You Can Do to Prevent Occupational Fraud

C. Report Irregularities (continued)

The law offers certain protections to people who come forward to furnish information about possible crimes. The new Sarbanes-Oxley Act, which is designed to discourage corporate misdeeds, makes it illegal to retaliate against certain "whistleblowers."

Who Prevents Occupational Fraud

As we discussed, the prevention of occupational fraud is the responsibility of everyone in the company. But within your organization, certain positions carry specific duties, as discussed below.

A. Board of Directors

A company's board of directors oversees all of the activities of the enterprise and is responsible to the shareholders to ensure not only maximum profits, but also to see that the organization is a good corporate citizen. It does so primarily by selecting management with high ethical standards to run the company. Additionally, the board provides management oversight to make sure that management is accomplishing its goals.

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Who Prevents Occupational Fraud

A. Board of Directors (continued)

When the board of directors is not independent or objective, as in the case of Crazy Eddie's Electronics, the results can be devastating.

B. Audit Committee

In public companies, an audit committee is named from the board of directors. Among its other duties, the committee meets regularly with the company's internal and external auditors for the purpose of ensuring the integrity and accuracy of the company's financial statements and other data. The audit committee is also responsible for making sure that the company has the proper control mechanisms, policies and procedures in place to protect the organization's assets and resources from fraud and misuse.

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Who Prevents Occupational Fraud

C. Management

Management is responsible for implementing the policies and procedures of the board of directors. Executives also play an important role in determining the ethical tone of the company by setting the proper example. Employees have a right to expect that their leaders set high standards. In the absence of management integrity, fraud can permeate the company.

In the Crazy Eddie case, the fact that the leadership was crooked was not lost on the employees. They compromised their own integrity by stealing and embezzling from the company.

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Who Prevents Occupational Fraud

C. Management (continued)

Since employees were aware of management's misdeeds, they might have ensured the company's survival had they informed the outside CPAs of potential problems. But instead, thousands of innocent employees were put out of work when the company was forced to close its doors.

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Who Prevents Occupational Fraud

D. Auditors

Companies have two kinds of auditors. Independent CPAs are responsible for examining the company's books so that they may express an opinion on the overall fairness and accuracy of the company's financial statements. Their responsibilities for fraud concern whether or not irregularities exist that are large enough to impact the company's overall financial condition.

Internal auditors assist the company's independent CPAs in their work but they also have their own unique duties. These include assisting management and the board of directors in developing and implementing internal control procedures to deter and detect fraud at all levels, whether large or small.

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Who Prevents Occupational Fraud

E. Anti-fraud Specialists

Many companies employ the services of anti-fraud specialists, such as certified fraud examiners (CFEs) or CPAs with relevant experience to investigate allegations of fraud, as well as to assist others in detecting and deterring these problems.

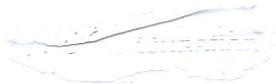
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Who Prevents Occupational Fraud

E. Anti-fraud Specialists

Many companies employ the services of anti-fraud specialists, such as certified fraud examiners (CFEs) or CPAs with relevant experience to investigate allegations of fraud, as well as to assist others in detecting and deterring these problems.

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Conclusion

In this training program, we have learned much about occupational fraud. The problem costs billions of dollars and an incalculable amount in human terms. It is committed principally by employees who see themselves as loyal and honest and who usually have no prior experience in fraud. The risk of fraud is normally determined by a person's position within the organization; employees commit theft while executives can falsify millions in assets or income.

Most occupational fraud is situation-based. Either the worker has a financial issue that needs immediate attention, or he or she uses fraud against the company as a way to express dissatisfaction. We have also learned that in most cases, clues were present that could have reduced losses.

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Conclusion

Finally, we have learned that the detection and deterrence of occupational fraud depends on everyone connected to the company. And by working together, we can make a meaningful difference.

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