

HOW GOOD EMPLOYEES CAN RATIONALIZE **BAD DECISIONS**



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KELLY'S **BACKGROUND**



**A left-handed CPA
who uses filmmaking
to teach **life lessons**
about decision-making**

TODAY'S AGENDA

1

**KELLY'S
BACKGROUND**

2

**REAL CASE
EXAMPLES
(RED FLAGS
IDENTIFICATION)**

3

**FRAUD
PREVENTION
STRATEGIES**

4

**QUESTIONS
& ANSWERS**





Ex-banker faces prison term, fine

GREENSBORO — Former NationsBank executive Thurman E. Dortch could face a prison sentence of more than 200 years on his conviction for defrauding the bank of more than \$2 million.

Mr. Dortch also could be fined \$1.75 million when he is sentenced in July on fraud, money-laundering and conspiracy convictions.

According to prosecutors, Mr. Dortch schemed with Durham developer Gary Lynn Wallace to remove from NationsBank's books a series of improper loans that Mr. Dortch had made to Mr. Wallace in the 1980s.

**INSIDER THREATS
ACCOUNT FOR NEARLY
75%
OF SECURITY
BREACH INCIDENTS**

OUR INHERENT BIASES ARE WHY
GOOD INTERNAL
CONTROLS MATTER

**REAL LIFE
CASE
EXAMPLES**

CITY OF DIXON, IL

ROSLYN SCHOOL DISTRICT



RITA CRUNDWELL

RITA CRUNDWELL

RED FLAGS

- **What was overlooked?**
- **Could this have been prevented?**



ROSLYN SCHOOL DISTRICT



SEPT. 17, 2004

The Bad Superintendent

By Robert Kolker

For the first time in his long, charmed career, Frank Tassone had a problem. The erudite, widely admired superintendent of the Roslyn, Long Island, school district—the North Shore public-school system he had managed to make, based on test scores, one of the ten best in America—found himself confronted in the fall of 2002 with a rather awkward, potentially embarrassing situation. His assistant superintendent for business had been caught stealing \$250,000, writing school checks to cover her credit-card bills and impetuously racking up mammoth purchases at a Home Depot several towns away. And the school-board members were sitting in the district’s conference room, waiting for Tassone to tell them what to do.

If you want a job where you get blame for everything, credit for nothing, and no real reward, try running for the Roslyn school board. Everyone on the North Shore has a child who is a genius, or demands extra attention, or has a guidance counselor who needs some sense talked into him. In darker moments, it’s you against the community you hoped to serve, with only the superintendent—the pro—to help you with the tough decisions. The pro, in this case, was Tassone, always dressed in the freshly pressed wardrobe of a CEO, with the academic pedigree and easygoing authority of a literature professor. That night, Tassone made a moving, eloquent argument for compassion and leniency. The culprit, Pam Gluckin, had tearfully confessed, he said. Her marriage was falling apart, she was ill, she’d been desperate. And if the board didn’t press charges, she’d agree to quietly resign, give up her administrator’s license, and give back the money right away.



Photo: Willie Anderson/NY Daily News Archive via Getty Images

ROSLYN SCHOOL DISTRICT RED FLAGS

- **What was overlooked?**
- **Could this have been prevented?**



NATHAN MUELLER

CRIME SPREADSHEETS

We were supposed to tie the Daily Cheque Register from PeopleSoft, where the actual cheques were printed, to the admin system (Raptor) that fed the contract related payments in the nightly batch run. On days I requested fraudulent cheques, these reports would not match. If auditors asked for copies or these registers for days I cut fraudulent cheques, I would have to cut and paste new reports to make copies for the auditors that matched.

Raptor Daily Cheque Register

6/30/2007	COM	Principal Life Insurance Co. 1234 Main St. St Louis, MO 12345	\$233,152.05
6/30/2007	CLM	Allianz Life Insurance Co. 500 Hwy 100 St. Louis, MN 55444	\$745,182.43
6/30/2007	REF	AIG 800 Park Ave. New York, NY 11111	\$1,563,289.91
TOTAL			\$2,541,624.39

CRIME SPREADSHEETS

For this example, let's say the outstanding debit I have for my fraudulent cheques is roughly \$3,000,000. I would run this query and download it to Excel. On non-quarter-end months, I could just adjust the query amount and my reconciliation would work out because nobody was going to actually tie this out to a trial balance. On quarter-end months, I had to use the actual balance because my boss would tie out the balance on the reconciliation to the trial balance.

PeopleSoft Account Balance Query - Original

BU	ACCOUNT	PRODUCT	DeptID	AMOUNT	DATE
RLIOO	107460		3045000000	\$3,634,455.15	6/30/2007
RLIOO	107460	600000	3045000000	\$1,112,900.01	6/30/2007
RLIOO	107460	600005	3045000000	\$3,949,634.27	6/30/2007
				\$8,696,989.43	

PeopleSoft Account Balance Query - Adjusted for Fraud

BU	ACCOUNT	PRODUCT	DeptID	AMOUNT	DATE
RLIOO	107460		3045000000	\$2,134,455.15	6/30/2007
RLIOO	107460	600000	3045000000	\$1,112,900.01	6/30/2007
RLIOO	107460	600005	3045000000	\$2,449,634.27	6/30/2007
				\$5,696,989.43	

NATHAN MUELLER

RED FLAGS

- **What was overlooked?**
- **Could this have been prevented?**

CULTURE IS KEY

**The focus on speed and
innovation CAN lead to fraud.**

CULTURE COMPONENTS



ONE AT THE TOP



MOOD IN THE MIDDLE



BUZZ AT THE BOTTOM

COMMONLY MISSED RED FLAGS

- **Lack of** written policies and standard operating procedures
- **Lack of** interest in or compliance with internal control policies, especially segregation of duties
- **Disorganized** operations in such areas as bookkeeping, purchasing, receiving, and warehousing
- **Unrecorded** transactions or missing records
- **Counterfeit** documents
- **Alterations** of documents
- **Photocopied** documents
- **Fund** transfers to offshore banks
- **Transactions** not consistent with the entity's business
- **Deficient** screening procedures for new employees
- **Reluctance** by management to report criminal wrongdoing
- **Unusual** transfers of personal assets

- **Employees** with lifestyles beyond their means
- **Questionable** handwriting on documents
- **Accounts** not reconciled on a timely basis
- **Stale** items on account reconciliations
- **Continuous** out-of-balance subsidiary ledgers
- **Bank** cheques written to cash in large amounts
- **Handwritten** cheques in a computer environment
- **Continuous** or unusual fund transfers among company bank accounts
- **Excessive** voids or credits
- **Unused** vacation time
- **Frequent** or unusual related-party transactions
- **Employees** in close relationship with one another in areas where separation of duties could be circumvented
- **Expense-account** abuse

IMPORTANT TAKE-AWAYS

- **ALWAYS PAY ATTENTION TO RED FLAGS**
- **TRAIN FREQUENTLY (not annually)**
- **CHERISH CULTURE**

TRAIN FREQUENTLY



People need
constant
moral
reminders.

CHERISH CULTURE

THE CAMERA EFFECT

The camera effect is the positive change that occurs when employees believe their actions are seen.






TED Speaker

Kelly Richmond Pope

Fraud researcher, documentary filmmaker

 [@kellyrpoppe](https://twitter.com/kellyrpoppe)

 kellyrichmondpoppe.com

TED Speaker

Kelly Richmond Pope researches organizational misconduct, ethics and fraud.

Harvard
Business
Review

ETHICS

Research: Whistleblowers Are a Sign of Healthy Companies



Whistleblowers are crucial to keeping firms healthy and that functioning internal hotlines are of paramount importance to business goals including profitability.

**The more employees
use internal whistleblowing hotlines,
the less lawsuits companies face,
and the less money firms
pay out in settlements.**

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ADDITIONAL FRAUD LINKS:

ALL THE QUEEN'S HORSES: <https://www.youtube.com/watch?v=tS1T3lwOQSs>

NATHAN MUELLER ARTICLE: <https://www.journalofaccountancy.com/issues/2014/aug/fraud-20149862.html>