

# Current Trends in Fraud and Fraud Prevention

Don Mitchell, CPA, CFE  
DMITCHELL@BSWLLC.COM

1050 N. Lindbergh Blvd | St. Louis, Missouri 63132 | 314.983.1200  
1551 Wall St. | St. Charles, Missouri 63303 | 636.255.3000  
888.279.2792 | [www.bswllc.com](http://www.bswllc.com)

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# Outline

## I. Introduction

- A. The “Fraud Triangle”
- B. Observing the Red Flags
- C. Typical Fraud Schemes
- D. Recent Cases

## II. Fraud Detection

## III. Fraud Prevention Measures

- A. Current Trends
- B. Security Steps to Reduce Fraud
- C. Other Fraud Prevention Measures



# I. Introduction



## A. The “Fraud Triangle”

- Opportunity
- Pressure
- Rationalization



## B. Observing the Red Flags

- Change in attitude, behavior or appearance
- Expensive automobiles or jewelry
- Purchase of new homes or furniture
- Extended work hours
- High personnel turnover in department

## C. Typical Fraud Schemes

- Accounts payable overstatement
- Accounts receivable manipulation/lapping
- Arson for profit
- Bank fraud
- Cash skimming
- Check forgery and counterfeiting
- Check kiting
- Credit/purchase card fraud
- Diversion of sales/drop shipments
- Expense account abuse
- Fictitious vendors, customers, employees
- Inventory overstatement
- Inventory reclassification
- Kickbacks
- Medical/insurance claims overstatement
- Payroll frauds
- Unnecessary purchases or purchases for own use
- Vendor short shipment

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## D. Recent Cases

- Employee embezzled by wire transfers to personal bank account
- Owner of mortgage company using lapping scheme to embezzle funds
- Executive director of non-profit opened another bank account to deposit donor contributions for personal use
- 50% owner of distribution company over-billed large customer and split excess collections with customer purchasing execution
- Consultant to non-profit double and triple billed for same services rendered



# II. Fraud Detection



# Fraud Detection

- Fraudulent activity can occur at any time within an organization. Its effects can be widespread and often lead to significant monetary losses. Each department within an organization is susceptible to fraudulent activity. However, some departments are more vulnerable than others.



# III. Fraud Prevention Measures

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## A. Current Trends

- More emphasis on governance measures
  - Tone at the top
  - Management's responsibilities
  - Audit committees
- Auditor's increasing scrutiny
  - New audit risk standards
  - Communication requirements
  - IT control reviews
    - From the outside
    - From the inside
    - Wire transfers



## B. Security Steps to Reduce Fraud

- Develop a comprehensive company accounting policy that is uniformly enforced
- Develop a system to regularly check inventories to ensure internal reporting procedures are followed
- Develop security steps to protect all banking and financial transactions



## B. Security Steps to Reduce Fraud (continued)

- Develop a security policy to protect all computer data, communications and confidential information
- Perform background checks of all employees **before** they are hired; periodically recheck
- Review all employee contracts or independence statements for conflicts of interest
- Inform employees that no one is exempt from accountability and responsibility for any type of fraud, direct or indirect



## B. Security Steps to Reduce Fraud (continued)

- Regularly check all material losses, ranging from reports of theft to missing equipment or supplies to discover any irregularities
- Periodically review vendors and customers to see if they use preventative measures that would reduce your exposure to risk



## C. Other Fraud Prevention Measures

- Code of Ethics
- Conflict of Interest Signed Statements
- Fraud Hotline
- Detailed Committee and Board Minutes
- Internal Audit Projects
- Surveillance Cameras
- Fidelity Bond
- Whistle-blowing Policy