Contents

Preface xiii
Acknowledgments xix

PART I: OCCUPATIONAL FRAUD AND CORRUPTION

Chapter 1: Introduction to Occupational Fraud and Corruption and Recent Trends 3
  Deception through Breaching Trust 4
  Global Trends in Occupational Fraud 4
  The Cost of Occupational Fraud and Corruption 6
  Types of Occupational Fraud 8
  Early Fraud 10
  The Fight against Fraud 12
  Profiling as a Solution 13

Chapter 2: Types of Occupational Fraud and Corruption 15
  A Myniad of Fraud Schemes 16
  Cybercrime 17

Chapter 3: What Is Fraud and More Specifically Occupational Fraud? 21
  The Association of Certified Fraud Examiners’ Definition 22
  The American Institute of Certified Public Accountants’ Definition 23
  Statement of Auditing Standard No. 99 Definition 23
  The Institute of Internal Auditors Definition 24
  Duration of Fraud Schemes 25
Chapter 4: Corruption 27
  The Geography of Corruption 28
  The Fight against Corruption 31
  Corruption and the Public Purse 33
  Cultural and Legal Influences on Corruption 34

Chapter 5: Normative Crime Analysis and Investigative Psychology 37
  Fraud Is Not a Norm 37
  Investigative Psychology 40

Chapter 6: The Fraud Triangle Becomes the Fraud Diamond: A Journey through the Theory 43
  The Fraud Triangle 44
  Fraud Risk 45
  The Theory Shaping Early Fraud Profiling 45

PART II: PROFILING THE FRAUDSTER

Chapter 7: Using Profiling in the Fight against Crime and Occupational Fraud 53
  The Mind of Adolf Hitler 53
  Development of the Psychology 55
  Modeling 57
  Modeling in Fraud Detection 59

Chapter 8: Criminal and Fraud Offender Profiling 61
  The Criminal Mind-Set 61
  Investigative Psychology 64
  Fraud Offender Profiling 64
  Profiling Challenges 67

Chapter 9: Behavioral Warning Signs or Red Flags 71
  How Red Flags Help Us Discover Fraud 73
  Management Red Flags 73
  Changes in Employee Behavior Representing Red Flags 74
  Fraudsters Living beyond Their Means Exhibit Key Red Flags 74
  Red Flags in the Accounting System 76
  Behavioral Characteristics as Red Flags to Fraud 78
Contents

Chapter 10: Motivation and Opportunity as Key Indicators 85
  The Motivation 85
  The Opportunity 92

Chapter 11: Profiling Individual Behavior and Characteristics of a Fraudster 95
  Perpetrator's Gender 97
  Perpetrator's Age 99
  Perpetrator's Tenure 101
  Perpetrator's Education Level 104
  Behavioral Red Flags Based on Perpetrator's Position 109
  Behavioral Red Flags Based on Scheme Type 109
  Behavioral Red Flags Based on Department 110

Chapter 12: Profiling the Fraudster's Position and Department 113
  Perpetrator's Position 114
  Perpetrator's Department 117

Chapter 13: Profiling the Fraud Methodology or Modus Operandi 123
  Collusion 124
  Position of Employment Creates the Opportunity 126
  Many Ways to Defraud an Organization 128

Chapter 14: Profiling the Victim Organization and Its Geography 133
  Fraud Victim Organizations by Geographic Location 134
  Corruption Cases by Region 136
  Types of Fraud Victim Organizations 136
  Size of Fraud Victim Organizations 136
  Methods of Fraud in Small Businesses 138
  Industry of Fraud Victim Organizations 140
  Corruption Cases by Industry 142

Chapter 15: Profiling the Consequences 147
  Legal Proceedings and Loss Recovery 148
  Losses Recovered 149
  An Often UnConsidered Consequence 151
Chapter 16: Using Case Studies for Profiling Fraudsters  153
  Why Reinvent the Wheel?  154
  Some High-Profile Fraud Cases  155

Chapter 17: The Use of Offender Profiling in Forensic Investigations  165
  Collation of Information  165
  Fraud Crime Intelligence  166
  Intelligence-Led Investigating  168
  The Value of Offender Profiling  168
  Improved Internal Controls  170

PART III: BUILDING A FRAUD PROFILING METHODOLOGY FOR YOUR ORGANIZATION
Chapter 18: Profiling as Part of Your Sound Antifraud Program  175
  Antifraud Controls at Victim Organizations  176
  Antifraud Controls in Small Businesses  178
  Antifraud Controls by Region  179
  Effectiveness of Controls  179
  Control Weaknesses That Contributed to Fraud  181
  Types of Offender Profiling  186

Chapter 19: Information Sources and the Role of Data Mining  189
  Forensic Profiling and the Use of Data Mining  190
  Supervised and Unsupervised Learning  192
  Privacy and Ethical Concerns Surrounding Data Mining  193
  Contributing to the Profiling Mechanism  193

Chapter 20: Fraud Profiling Your Organization  197
  Personal Particulars of the Offender  198
  Obtaining Modus Operandi Information  198
  Determine the Motive of the Offender  199
  Opportunity  201
  Red Flags  203
  Lifestyle Change  203
Contents

Chapter 21: The Process of Developing a Fraud Profile 205
  Development of a Fraud Risk Assessment 206
  Development of the Fraud Profile 213
  Development of a Fraud Detection Net 216

Chapter 22: The Role of the HR Recruitment Process in Profiling 223
  Perpetrator’s Criminal History 224
  Perpetrator’s Employment History 224
  Controlling Human Risk 225
  Effective Human Performance 226
  HR Departments Closing the Door on Fraud 226
  The Curriculum Vitae: Fact or Fiction? 227

Bibliography 231

About the Author 237

About the Association of Certified Fraud Examiners and the Report to the Nations on Occupational Fraud and Abuse 239

Index 243