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To Catch a Thief- Investigations and Interrogations

Lubin School of Accountancy
Syracuse University
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Bear Hill Advisory Group is a boutique consulting firm with a decade of experience helping management teams and their boards understand their businesses better.

Services include business risk assessments, risk incident response plans, interim CFO services and business process improvements.

Our goal is to help you manage your business of today while building for your business of tomorrow.

Jack P. Healey, CFE, CPA/CFF, CRISC

Chief Executive Officer, Bear Hill Advisory Group, LLC



Jack is an expert in operational, financial and organizational management, strategies, and tactics. He is an expert in risk management, including business risk, risk agility and resiliency, information security risk, and insider threat programs.

He is a Certified Fraud Examiner, Certified Public Accountant, Certified in Fraud and Forensics, Certified Information Systems Controls, Cybersecurity SOC, and Cybersecurity Services. He is a member of ACFE, InfraGard, ISACA , AICPA, RMS and NACD.

He authored the Business Crisis Diagnostic and Prevention Model™, which provides businesses with the framework necessary to identify impending business crises before they occur. He has authored or co-authored articles on Velocity of Risk and Customer Experience.



Fraud Examination is a methodology of resolving fraud allegations from inception to disposition. This is done by:

- Obtaining Evidence and taking statements
- Writing reports
- Testifying to findings
- Assisting in the detection and prevention of fraud

How do we find Fraud?

- Tips- Are they legitimate, revenge? Genuine concern? Money? (SOX, IRS)
- Internal Audit
- Suppliers
- Customers
- Competitors



Regardless of the nature of the fraud there are essentially 3 tools:

- **Interviews**
- **Document Examination**
- **Observation**

STEPS IN A FRAUD EXAMINATION





- Develop Exceptional Interview/Negotiations Skills
- Follow Your 'Truth Detector' and Study the Art of Deception (Learn Lie Spotting)
- Strive to Understand Regardless of Outside Influence



Information Seeking Interviews:

- Most Common
- Seek to understand facts or sequence of events
- Trick is not to 'lead' or give closed end questions
- Great skill to develop – you will use throughout your life
- “Really? Interesting. Why do you think that?”

Confession Seeking Interviews:

- Same approach as above
- Most facts already known
- Goal is to reach a conclusion or support facts already known
- Don't allow to get locked into a story or lie that you know isn't true



Preparation- An interviewer's proficiency is determined by the degree of preparation

- Understand all you can about the subject and subject matter

Effective Questioning- Critical to understanding Questioning vs.

Information Seeking Predicates (ISP).

- Question- You don't know the answer- "Can you tell me what happened last night"
- ISP- neutral and open verbal prompt or predicate or predicate for information- **"what happened"?**

Questions less effective and limiting



Rapport- avoid words like investigation, internal audit, fraud examiner-
“Can we meet to discuss improvements to the T&E policy?”

Choose a convenient time and place- comfortable venue unless it is a
confession eliciting interview

Seating arrangements should NEVER block the door or make subject feel
that they can not leave (liability)

Small Talk- put them at ease- “How are you doing?”, “what kind of day
have you had”.



Be careful in phrasing questions to allow for a 'No'-

- 'Do you know anything about the falsification of expense reports?'

Asking 'why' allows for conjecture- 'how' is more powerful

Honest person v. deceitful answers to 'how' and 'why'

Be certain it is a question- "Can you tell me?" v "**Tell me**"



Don't be too quick to go onto your next question- allow the subject to answer fully

- 'Go on'
- 'What else?'
- 'And then what?'

If they give a compound answer **deal with one answer at a time**

Save intrusive or emotional questions for late in the interview- and **DO NOT APOLOGIZE** –'I know this may be difficult for you to answer'

- Sends signal that you're changing tone



Develop a Baseline for: Laugh, Voice, Posture, Gestures and Reactions (profiling)

Ask Opened Questions: A truthful person will tend to repeat themselves

Guilty Sounds: Guarded; vague; overly polite, calm or intellectual; reluctant; dismissive; weak; brief; Illogical; linear

Look for the gaps in: Statements; Logic; Behavior; Emotion

DON'T IGNORE YOUR GUT!



Listen very carefully to ‘the story’ - ***Liars tell story chronologically***, and have ‘the story’ memorized- asked details- what did you have to eat at the bar?’

Listen for: ***Parrot, Dodge Ball, Guilt-Trip*** (I bet you’re not hounding execs about what they did) , ***Protest*** (I’m busy and my kid is sick), ***Too Little Too Much*** (hint: too little- deception) or ***Bolstering*** (I swear to God!, You’ll never believe this, As far as I Know) and ***Distancing Statements*** (lack of first person) ***Euphuisms*** (take v steal)



Liars like Specific Denials “I did not try to cheat you”

Honest people issue Categorical Denials- “I would never do anything like that”

Liars' voices differ during the lie- Usually louder and higher

Honest people tell stories with prologue, main event, epilogue

Liars omit the epilogue (emotional part)



Other people will try to force you to a conclusion or to wrap up your engagement- **Do not sign off as complete until you fully understand the facts!**

- “I already told another member of your team the answer”
- “You didn’t tell me you needed originals! I filed them back and made you copies!”

Pressures to “wrap it up”- time budgets!



Interviewer talks 15% of time

Allow subject to answer without interruption

Allow a few moments for silence between questions or predicates

Who can confirm the information provided by the interviewee

Encourage the Interviewee to speak

JUST REMEMBER THIS:



Observe

Guide

Steer

Collect Information

And most importantly.....

Listen!



- IDG was a 'business process outsourcing' organization (BPO) providing services for manufacturers inside their customers manufacturing plants all over the country
- IDG put a high degree of reliance on billing the most you could at any given site
- Anything we bought on their behalf was billed to the client.
- Volume was high and therefore not easily reviewed by supervisors or clients
- IDG was public and had an Ethics Hotline, Internal audit staff (of 2), strong internal controls, large finance team who all worked for Big 4 accounting firms at one point in their career



- All P-Card purchases were reconciled as shown as 'received' by site
- All suspect purchases were invoiced to customer, and paid by the customer
- Receivers were logged several days later – by same person whose password had been shared
- Receipts are initialed by the plant superintendant as 'received'



- So, you are not out any money- client was invoiced and paid for the purchases
- The product was shown as received in our system and signed off by the customer
- All paperwork is in order
- An issue would mean that you have to repay customer and admit a problem

What else would you do?



- We took several of the purchases from The Home Depot and Walmart and decided to trace them to the request from the plant for the purchase

[Consolidated File - Steve Lano - 5-30-08 - Meeting.xls](#)

- We could not find the requests, and were told these were destroyed
- The suspect purchases were the only ones which were missing
- Informational gathering interviews began

Who are your suspects and who's first?

WHAT HAPPENED?



- Supervisor credit card receipts were reviewed and intentionally altered
- He was confronted with computer logs, receipts and video supplied by Walmart of him making purchases during our on-going investigation
- He declined to make a written statement, but admitted to about \$10,000 in purchases [Summary of IDG and Lano - June 2009.doc](#)
- He was arrested and convicted of stealing \$130,547 by Delaware State Police

[State of Delaware - Lano, Stephen - March 2009.pdf](#)



- The Company received a tip on the Ethics Hotline that items purchased for a site with p-cards were not delivered to the site, but an alternate address
- CFO assigned to IA to perform a site audit investigate
- Testing the receipts IA found fraudulently created PO's to support the purchases
- The fraudulent PO's were created by the site Supervisor
- No attempt was made to disguise fake PO's which were deleted from system at month's end

HOW DID THE FRAUD OCCUR




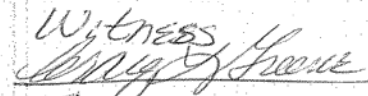
- Items purchased were delivered to an address owned by 'ATC Corp' The supervisor had no ownership in company according to records check
- A background check of the supervisor found that his family was well known in the community and was seen as the 'Greek Godfather'
- Purchases were for power tools, compressors, electrical boxes, wiring and building products
- When confronted supervisor said he received no compensation, had done it '5-6 times' for less than \$100,000



6/27/08

I started creating PO's to Electrical Dist about a year ago to service several friends. I think I have created about 5-6 po's in the time period I was doing this. NO one at IDG or my friends have any idea I was doing this. I did receive the money for the goods. Again no one @ IDG or Barker had an idea I was doing this. I had orders log in and created the po's on my own. I am truly sorry for doing this, and I will try to make good on whatever IDG needs me to do. I estimate the amount to be ^{less than 100k}


6/27/08
Tom Louizos

Witness


Craig L. Greene
6/27/08



Karl L. Skum
6/27/08

WHAT WAS REALLY GOING ON?



- Scheme had been going on for at least 4 years
- Supervisor would purchase goods at 'will call' and deliver items to ATC
- Supplier made a mistake and did not hold discovered item for 'will call' and delivered thus exposing the fraud

WHAT WAS REALLY GOING ON?



- Purchases in excess of \$250,000 were made mostly from our competitors, and billed to the client [Barden Bearings - 8-7-08 - IDG Update.xls](#)
- Items were 'contributed' to a large scheme involving organized crime-whereby the items were 'contributed' to remodel old homes, group would split profits [Plea deal struck in Danbury embezzlement - NewsTimes.pdf](#)
- Convicted 4 years later total fraud in excess of \$450,000!

WHAT DID THESE HAVE IN COMMON?



- Corruption type frauds
- None were discovered by internal audit
- All associates worked in satellite offices and had little connection to 'mother ship'- lack of loyalty
- All justified actions by we 'did no harm', company not out anything, 'we saved customers in other ways to make up for it'
- All admitted to amounts a fraction of the actual crime

HOW COULD IDG PREVENT THESE FRAUDS?



- Tone at the top was contributing factor- CEO had history of not firing people for T&E fraud, and was selective in punishment for fraud
- Have more events that all associates feel like they are part of company culture
- Notify vendors of our policies, adopt a 'zero tolerance' policy on gratuities
- Train associates to recognize indicators



Effective interviewing skills will benefit you in business and life

Build Rapport and get to gage your subject

Ask open ended questions....”Interesting tell me more”

Keep an open mind

Learn the ‘art of deception’

QUESTIONS AND CONTACT INFORMATION




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