

First Friday Fraud Facts+

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The Idaho State Controller's Office distributes this newsletter as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.



QUESTIONS OR COMMENTS:

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Welcome to First Friday Fraud Facts+ (F4+). This edition will cover one man's hypothesis as to why people commit fraud. His hypothesis is known as the fraud triangle.

"There is no kind of dishonesty into which otherwise good people more easily and more frequently fall than that of defrauding the government"

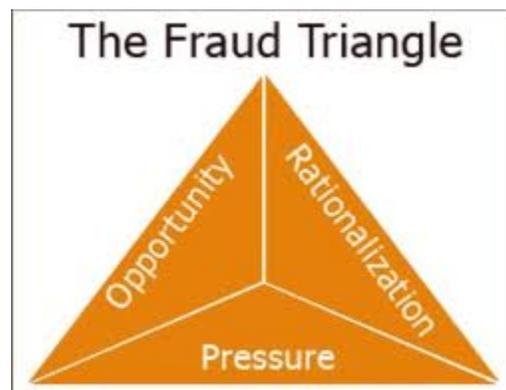
- Ben Franklin

DONALD R. CRESSEY

During the 1940s at Indiana University, Donald Cressey was working on his PhD in criminology. Cressey decided his dissertation would focus on embezzlers.

Cressey was intrigued by embezzlers, whom he called "trusted violators." He was especially interested in the circumstances that led them to be overcome by temptation. Upon completion of his studies he developed what still remains as the classic model for occupational fraud and what has become more well known as the "fraud triangle."

FRAUD TRIANGLE





One leg of the triangle represents a *perceived non-sharable financial problem*. The second leg represents *perceived opportunity* to commit fraud, and the final leg stands for *rationalization* or justifying a theft.

- Non-sharable Problem - The role of a *non-sharable financial problem* is important. Cressey said, “When the trust violators (in his study) were asked to explain why they refrained from violations of other positions of trust they might have held at previous times, or why they had not violated their position of trust at an earlier time, they responded with the following; (a) ‘There was no need for it like there was this time.’ (b) The idea never entered my head.’ (C) ‘I thought it was dishonest, then, but this time it did not seem as dishonest at first.’
- Perceived Opportunity - According to the fraud triangle model, the presence of a non-sharable financial problem, by itself, will not lead an employee to commit fraud. The non-sharable financial problem creates the motive for the crime to be committed, but the employee must also perceive that they have an opportunity to commit the crime without punishment.
- Rationalizations - Rationalization is a necessary component of the crime *before* it takes place. In fact, it is part of the motivation of the crime. The embezzler does not view themselves as a criminal, they must justify their misdeeds before they ever commit the crime. Rationalization is necessary so that the perpetrator can make their illegal behavior acceptable to themselves and maintain their belief of being a trusted person.

The key to understanding the fraud triangle model is to remember that all three elements must be present for a trust violation to occur.

RED FLAGS

The following practices in an organization’s environment should be avoided to mitigate the risk of occupational fraud:

- Placing trust in key employees without monitoring
- Lack of proper procedures for authorization of transactions
- Inadequate disclosures of personal investments and incomes
- Lack of independent checks on performance
- Inadequate attention to details
- No separation of custody of assets from the accounting for those assets
- No separation of duties between accounting functions
- Lack of clear lines of authority and responsibility
- Infrequently review by auditors

As always, an organization’s environment and ‘tone at the top’ can deter fraudsters by eliminating the perception that employees can commit fraud and not get caught.

FISCAL FOCUS:

The State Controller's Office has recently introduced a new transparency website for the citizens of Idaho. This website is designed to give citizens and policy makers data about Idaho's revenue, spending, and workforce. You can find the website at www.transparent.idaho.gov

ANNOUNCEMENTS:

1) Mark your calendars to attend one of the following Idaho SCO's Annual Internal Control Training sessions:

a) Tuesday, April 16, 2013, from 8:00 a.m. – 10:00 a.m.

OR

b) Wednesday, April 17, 2013, from 8:00 a.m. – 10:00 a.m.

2) The 2012 Comprehensive Annual Financial Report (CAFR), Citizen-Centric Report, and the Legal Basis Financial Report are now available on the SCO's website at www.sco.idaho.gov. Under "What's New" click on "2012 Comprehensive Annual Financial Report" to access all three reports online.

