

# DAYTON

*FRAUD, CYBER & ETHICS CONFERENCE*



**B**EHAVIORAL  
FORENSICS  
**4**GROUP™ LLC  
**G**



**Southwest Ohio Chapter**



University of Dayton  
**Center for Cybersecurity  
& Data Intelligence**



# ***The Psychology of Choices: Ethics and Fraud***

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Behavioral Forensics Group, LLC



Dayton Fraud, Cyber & Ethics Conference

November 5, 2019

Daniel J. Curran Place, Dayton, Ohio

# + This Ethics Presentation

## Fundamental B4G Premise

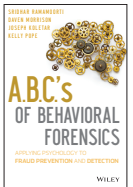
- Behavior
- Organization
- Environment

## Ties to Ethics

- How and Why Humans Deceive
- The People: Perpetrators, Witnesses, Victims
- Choices and the Professional



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# Our inspiration at B4G LLC

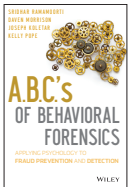
[Even] though these reasonings concerning human nature seem abstract and of difficult comprehension ... and whatever pains these researches may cost us we may think ourselves sufficiently rewarded...if, we can make any addition to our stock of knowledge in subjects of unspeakable importance.

--Scottish philosopher, DAVID HUME

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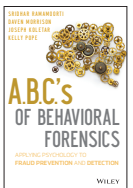
# Ethics and Fraud: A question of Behavior

- Psychology is the science of human behavior, and fraud is a human act.
- The most general equation of psychology describing our focus, **behavior (B)**, as the interaction between the (human) organism (O) and its environment (E) is—

$$\mathbf{B} = f(\mathbf{O}, \mathbf{E})$$



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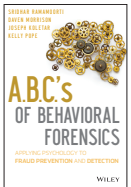




# Deception is part of the natural world

- + Deception is rampant in nature, along with mimicry, camouflage, and predator-prey characteristics

$$\mathbf{B} = f(\mathbf{O}, \mathbf{E})$$



# + If Fraud is a behavior, of people...

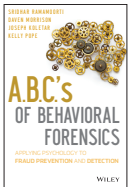
$$\blacksquare \mathbf{B}^{ff} = f(H, E)$$

- $B^{ff}$  = Behavior of financial fraud
  - H = the Human being

- And there's more:
  - Fraud is illegal.
  - All fraudsters have aspects of deviant personalities.
- Therefore, to study the behavior of financial fraud we need to understand:
  - Human psychopathology, and
  - The aspects of the Environment which inhibit and encourage fraud



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## “B<sup>ff</sup>”: What do we see?

The “how” and “why” of the Behavior

$$B^{ff} = f(H,E)$$





# Fraud Violation of Trust

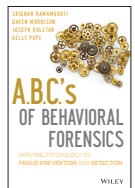
Fraud is a human act involving violation of trust through deception

There are three ways someone can take your money:

+ **rob you** - real threat, e.g. at gunpoint

**steal from you** - clandestine, unauthorized, e.g. when you were asleep

**con you** - trust violation, victim is willing participant, e.g. email phishing.



# + Are they Insane?

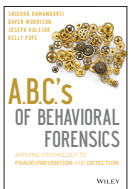
(Are they) Choosing White Collar Crime\*?

- Jeremy Bentham (18<sup>th</sup> century economist) maintained that a person's propensity to commit a crime is determined by his or her perception of related risks and rewards
- Use “rational choice theory” to argue that criminals weigh costs and benefits of criminal activity and **choose** deliberately to perpetrate white collar crime

\*Name of 2005 book by sociologists Shover & Hochstetler (also Becker 1968, Samenow, 1984)

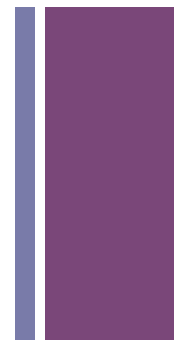


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# “The Confidence Man”: Conning Victims



## ■ Suggestio Falsi

- “Telling It Like it Ain’t”



## ■ Suppressio Veri

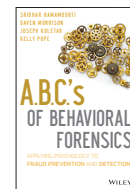
- “Ain’t Telling It Like It Is”

- *The A.B.C.’s p 182*

- *(On how con men and women exploit the psychology of the victim)*



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# Common Knowledge: THE FRAUD TRIANGLE

**Pressure/Incentives:** Knowingly  
*commit fraud for a perceived need*



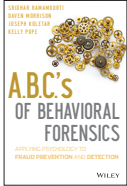
**Rationalize:**  
*Justify theft to self*

**Opportunity:**

*Find a hole in accounting process*



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# “H”: Who is the Human Being?

Perpetrators, Witnesses and Victims

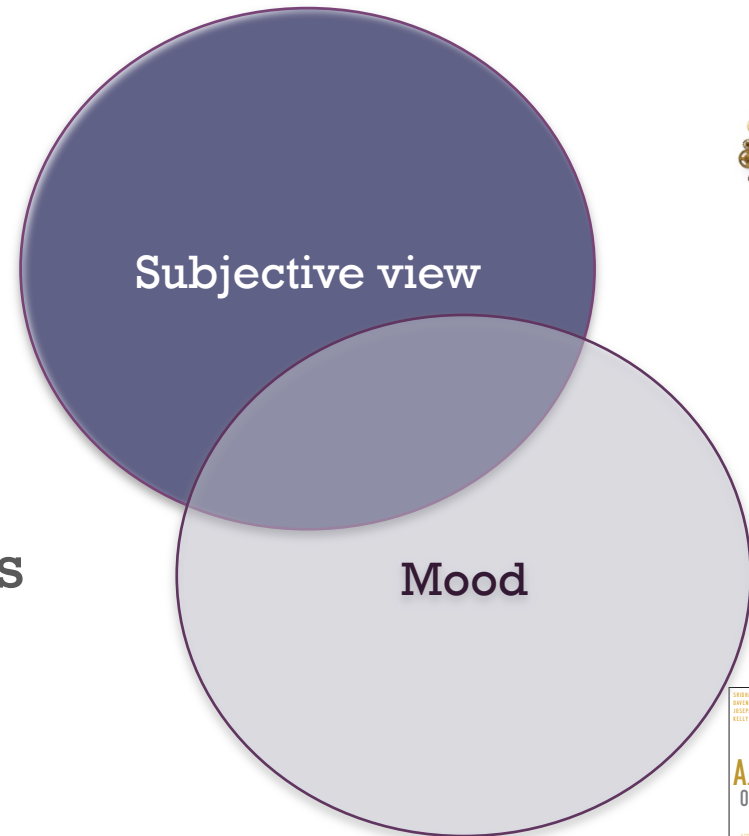


# Underlying determinants of choice

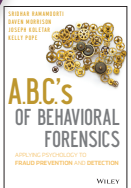
Getting into the mind of the white collar criminal:  
drivers of human behavior

- **The Fraudster brings two elements unique as a finger print**

- **Subjective view** and interpretation of context
- **Mood:** a sustained and palpable blend of thoughts and emotions



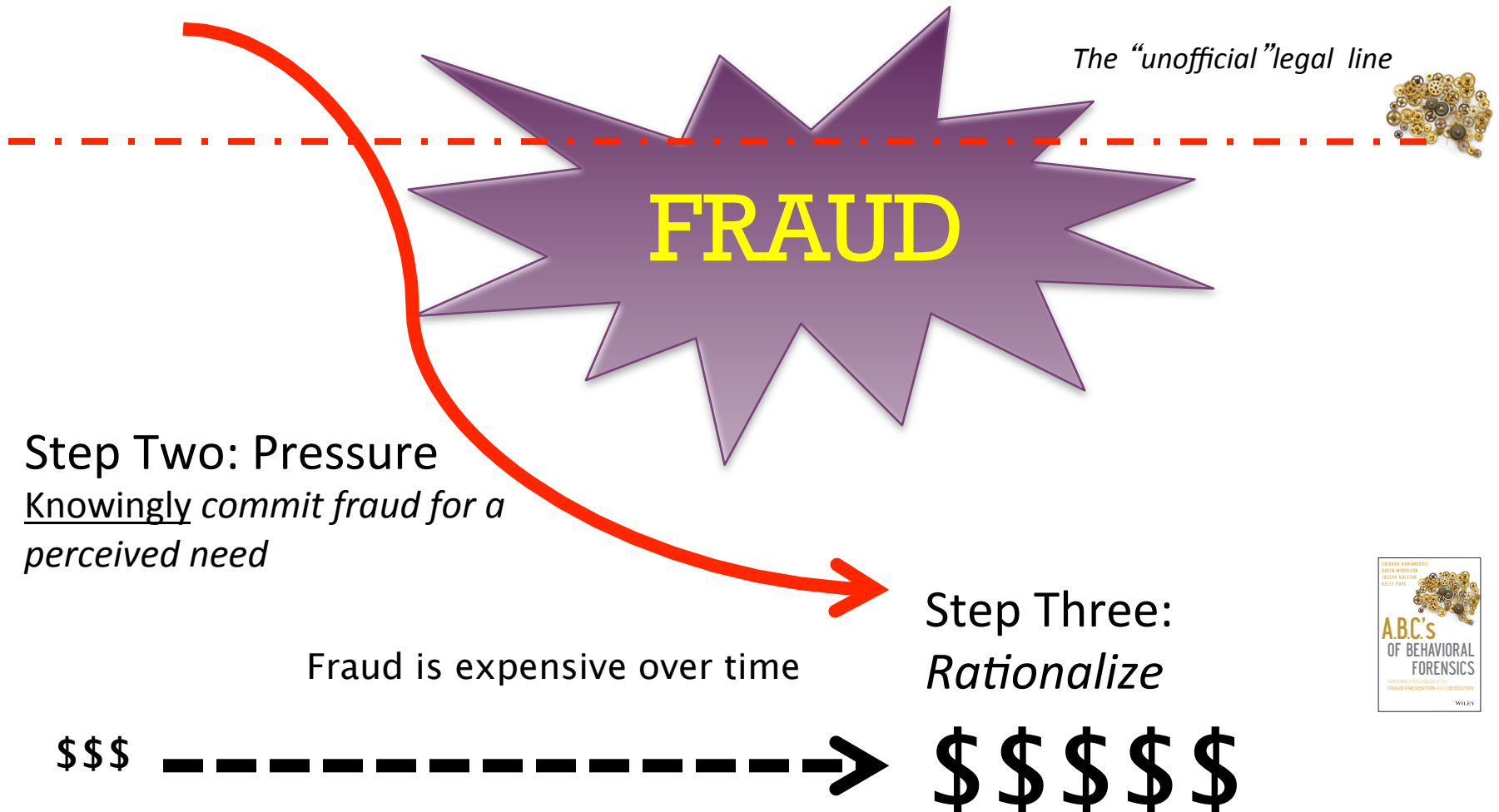
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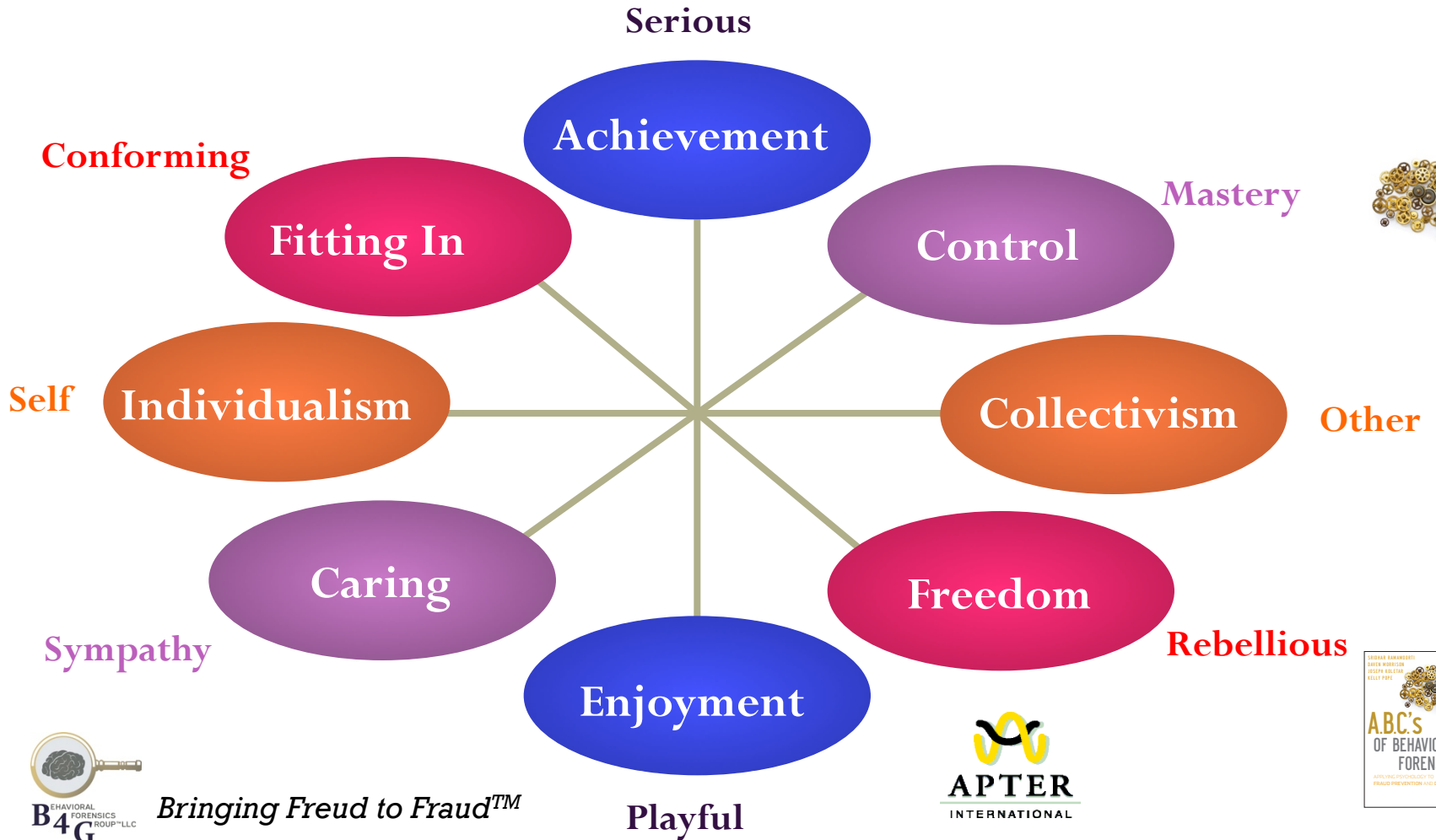
# + THE FRAUD TRIANGLE IN MOTION

## Step One: Opportunity

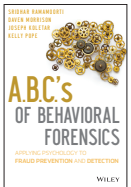
*Find a hole in accounting/oversight process*



# The Eight Motivational States: A tool to use to understand the Psychology



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# When Honesty Reverses

STARTING Motivation:  
*Follow the rules*

The "unofficial" legal line



FINAL Motivation:  
*Disobey the rules*

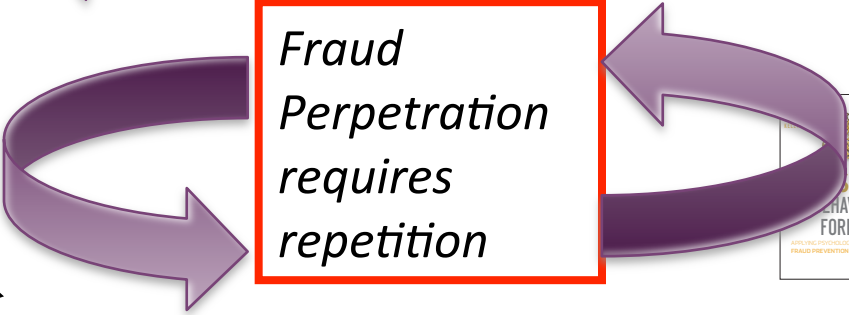
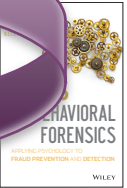
?  
Question: Do I  
keep the money?

!  
Answer: Yes

*Fraud  
Perpetration  
requires  
repetition*

The Reversal

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# Pathology of “The Dark Triad”

In the case of dark triad personalities the values, beliefs, and expectations become pathological

## The Deviant Personality

- Psychopathy
- Machiavellianism
- Narcissism

## The Core Thought

- “I don’t see your pain”
- “I will do what it takes”
- “Enough about me, what do you think about me?”



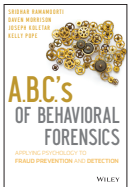
*Self-centered: WIIFM-cubed?*

Fraud Triangle does not apply (Epstein & Ramamoorti, 2016)

Paulhus & Williams (2002) characterization of predatory personalities  
“Little or no conscience” (Babiak & Hare, 2006)



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# + What about Mood?

Consists of--

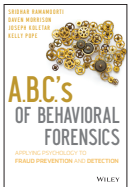
- Perceptual biases
- Memories
- Cognitions
- Behavioral propensities

(Change one and the others will change)

## ■ EMOTIONS



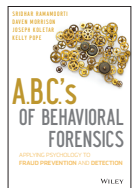
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# + Emotions



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# + Numbers aren't real

## Concrete

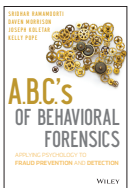
- Washington Monument
- Your phone
- Your teeth
- Your shoes
- The walls of your office

## Abstract

- Democracy
- Strategy
- Budget
- Financial Report
- “two pencils”



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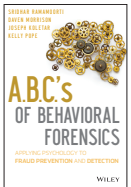
# Said the Spider to the Fly: Seduction Techniques

- Masking (hiding relevant facts)
- Dazzling (the fine print)\*\*\*
- Decoying (distracting through blind alleys)
- Mimicking (fictitious transactions without substance)
- Repackaging (changing labels)
- Double Play (improper application of rules to something that does not matter!)

■ *The A.B.C.'s p 182*



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+ What about “E” the  
Environment?

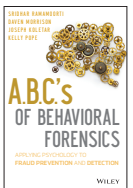
Choices and the Professional

# + Ethical Choices and “E” Environment

- Coworkers
- Leaders
- The physical environment



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# Sustaining large frauds requires getting others to Reverse Motivation

START: Rules Matter



Motivations to recruit others (rationalizations)

- **Self:** *They don't care 'bout you!*
- **Other:** *You need \$ for our medical bills*
- **Play:** *who can catch us?*
- **Mastery:** *Now they will know we 're in charge!*
- **4 More possible motivations**



Over time the fraudster's TEAM believes: "their rules are not for us"

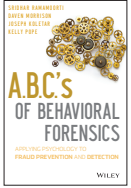
Reversal

\$\$



\$\$\$\$\$

**Time/Title is the enemy ...  
As the cost grows**



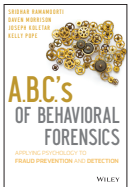


# E “environment” can play a role in switching motivational states

- Apter’s Reversal Theory (2007) presents
  - Eight Motivational States behind Values, Beliefs and Expectations
  - Pairs of Opposing Factors that influence Behavior
  - Helps explain “Why Good People Make Bad Choices/Decisions”



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# + Executive Judgment impacts “E” as well

## Strengths

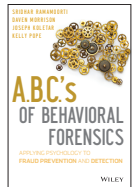
- Strong Perceptions in ambiguity
- Strong intellectual abstractions, and analytical skills
- *Work Ethic, High EQ*
- *Reality-based approach (pragmatic)*



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## Vulnerabilities

- Narcissism
- Low EQ: Poor Capacity to read Emotions and fit with Context
- Hyper-Competitiveness (precursor to Machiavellian-style behavior)
- *Absent Self-Reflection (little conscience, shame, possible psychopathy)*
- *At risk of mid-life challenges (concern about one's legacy)*



# + The Protective Frame

Michael Apter PhD

## What happens

- Danger is diminished
- Fear is lost
- Excitement is enhanced being close to what is feared

How victims fail to recognize that they are in a position of grave danger...(confirmation bias)



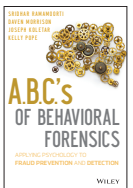
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## Examples?

- Tiger in a cage/Diver in a shark cage
- Sports stadiums
- Horror Movies

Ponzi scam artist Sir Allen Stanford (knighted in Antigua) had a reputation as an extraordinarily wealthy person promising outside returns



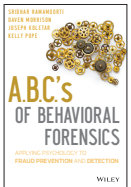


# Professionalism Defined

- Certified – qualified above and beyond lay person
- Skill, advice or counsel has value – can earn a living
- Higher standard - profess to uphold
- Choosing a higher ethic = profess higher values
  - CPA
  - MD
  - CFE
  - JD
  - CFF
  - MBA
  - Pharm D



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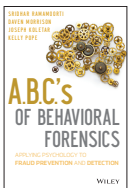
# + Rita Crundwell as Case Study

## Aspects of Reversal Theory—8 Ways of Being

- Placed individual/selfish interest over that of Dixon, IL community (Individualism/Collectivism)
- As long-time City Comptroller had full control over books and records as well as City tax and other revenue sources (Control/Caring)
- Valued hedonistic enjoyment of equestrian shows and prize-winning quarter horses over representing Dixon City (Enjoyment/Achievement)
  - Prized freedom to operate with City revenues without any one questioning her (parallel a/c)
- Broke the law! (valued rebelling over conforming)



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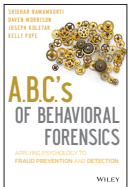
# + VALUES

**Values are** what is important to the individual

- Determines the intensity of their need for immediate or delayed gratification
- Their lived not stated values are pertinent to fraud
- Fraudsters don't see themselves as greedy
- Many see themselves as rational
- No history of NGRI (Not Guilty for Reasons of Insanity) for Fraud
- *Rita was not insane*



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# + Concluding Thoughts

**“Every economic act, being the action of a human being, is necessarily also a moral act.”**

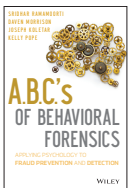
-- William Letwin in the *Origins of Scientific Economics*, 1964, p. 159, Methuen & Co.

**“Emotions are the gateway to human action, of which fraud is one. Affects as data help us understand all human behavior in the predator, prey and witness dance.”**

-- David E. Morrison, III, MD, partner, Behavioral Forensics Group LLC



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Questions?

**The conference  
will resume at  
4:10**

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