

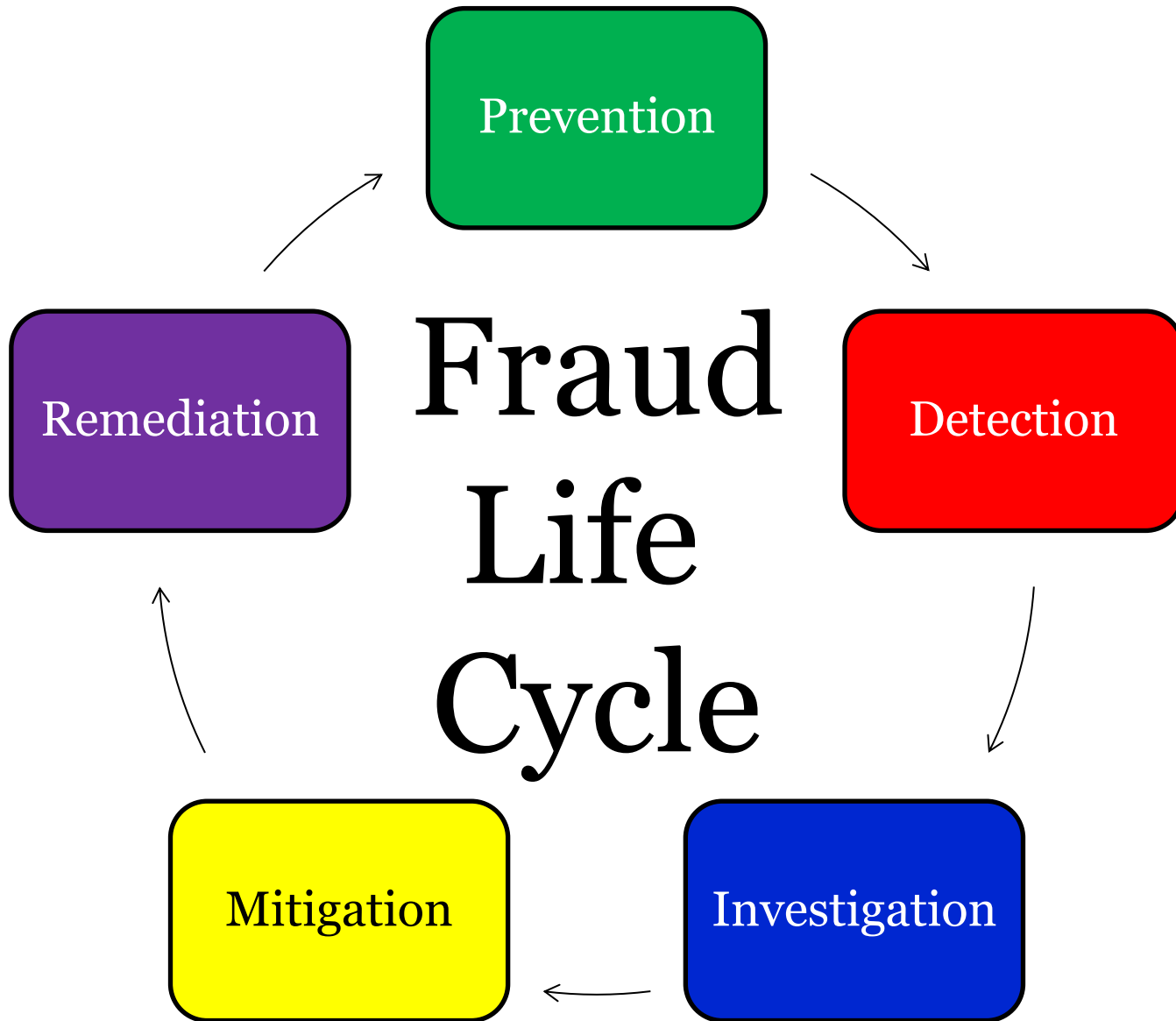
# The Honest Truth About Fraud: A Life Cycle Approach for CPAs

**Vic Hartman**

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The Hartman Firm, LLC

Atlanta, Georgia

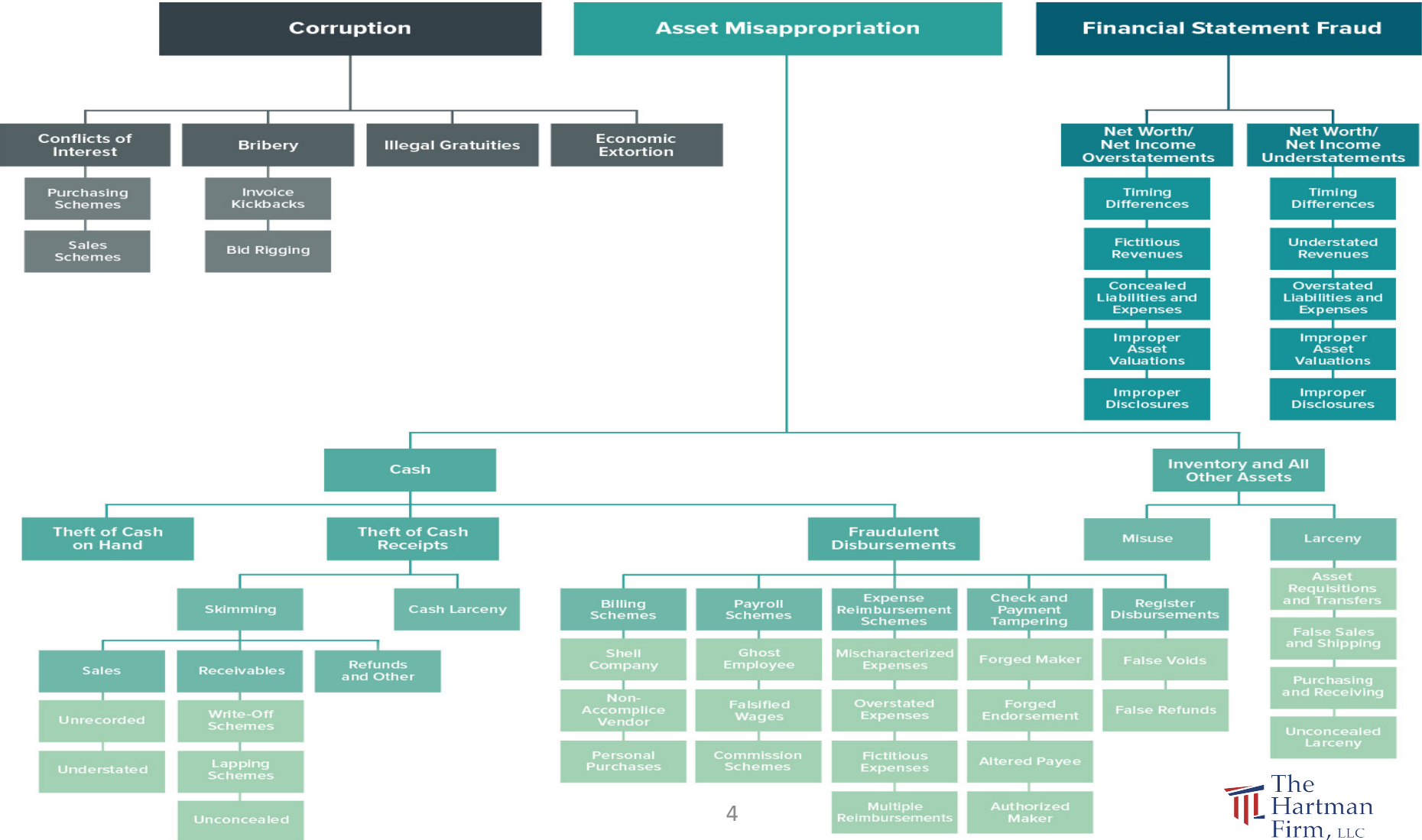


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# What's your favorite cupcake?



# Threat Picture: Fraud Tree



# Aggregate Threat Picture

- Fraud Tree:
  - Financial Statement Fraud
  - Corruption
  - Asset Misappropriation
- Cyber Scams
- Investment Frauds
- Insurance Frauds
- Government Fraud



# What is the largest fraud in the U.S.?

Health Care Fraud

Ransomware

Tax Fraud

Business Email Compromise

Theft of Intellectual Property

# The Three (3) Largest Frauds

- What are the frauds?
- Tax Fraud
  - 1/2 Trillion
- Theft of Intellectual Property
  - 1/2 Trillion
  - Think China
- Health Care Fraud
  - 1/4 Trillion
- What do these have in common?
- Victim apathy!

# How Big is Health Care Fraud?

US GDP	\$21,000,000,000,000	18%	\$3,780,000,000,000	Health Care
	\$3,780,000,000,000	5%	\$189,000,000,000	< Fraud
	\$3,780,000,000,000	10%	\$378,000,000,000	> Fraud

**1/4 Trillion**



# Why Do People Commit Fraud?



# Why Do People Commit Fraud?



# It May Not Be The “G” Word



# Affects (innate emotions) Drive Fraud

Fear

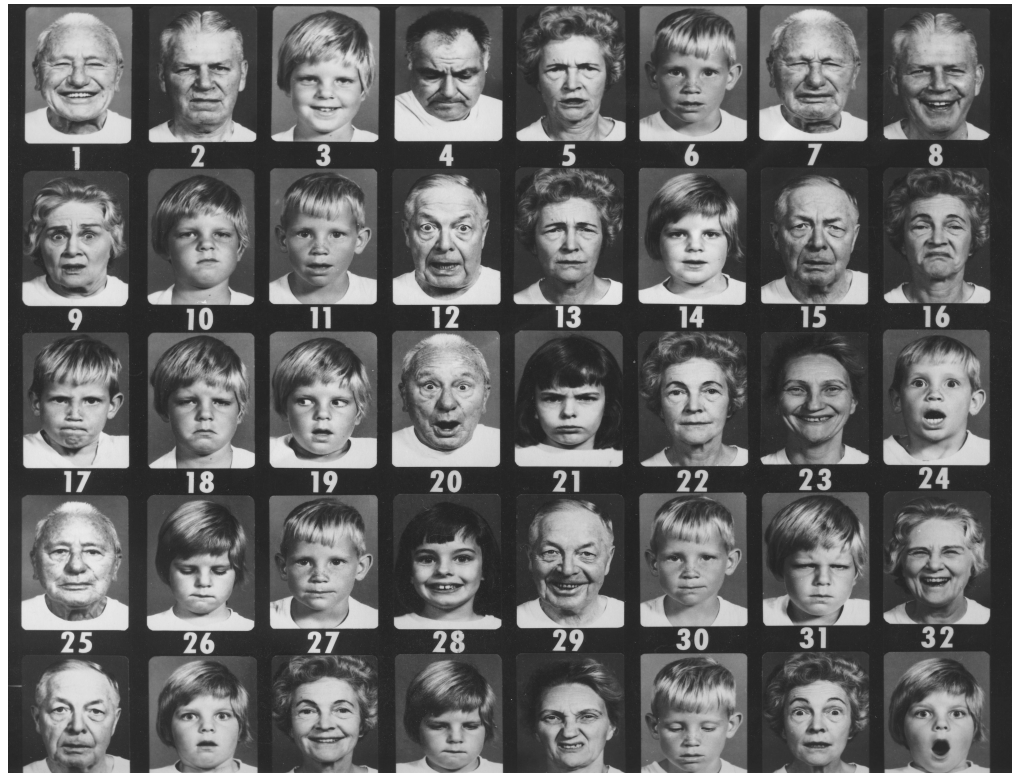
Shame

Enjoyment

Interest

Anger

Distress



Surprise

Contempt

Disgust

# Peeling the Onion



# Motivations: Business Need

- “Noble Cause”
- Economic downturn
- “Save the company” mentality



# Motivations: Ego

- Hyper-competitiveness
- “Dark Triad:
  - Narcissism
  - Machiavellianism
  - Psychopathy
- Self-aggrandizement
- Pride
- Shame



# Motivations: Excitement

- Gambling with other people's money
- Financial Services Industry
- Risk Taker





# Motivations: Parity

- I deserve better.
- Devoted my entire career here.
- I'm getting cheated.



**(cp)** corporate  
perks

# Anatomy of a Bribery Case

## Government

Elected Officials



Subject Matter Expert



Procurement Official



Adam Smith



Larry Smith

## Outsiders



"E. R." Mitchell



Charles Richards



Mitzi Bickers

Contractor

Contractor

"Bag" Woman

# Motivation: Reciprocity

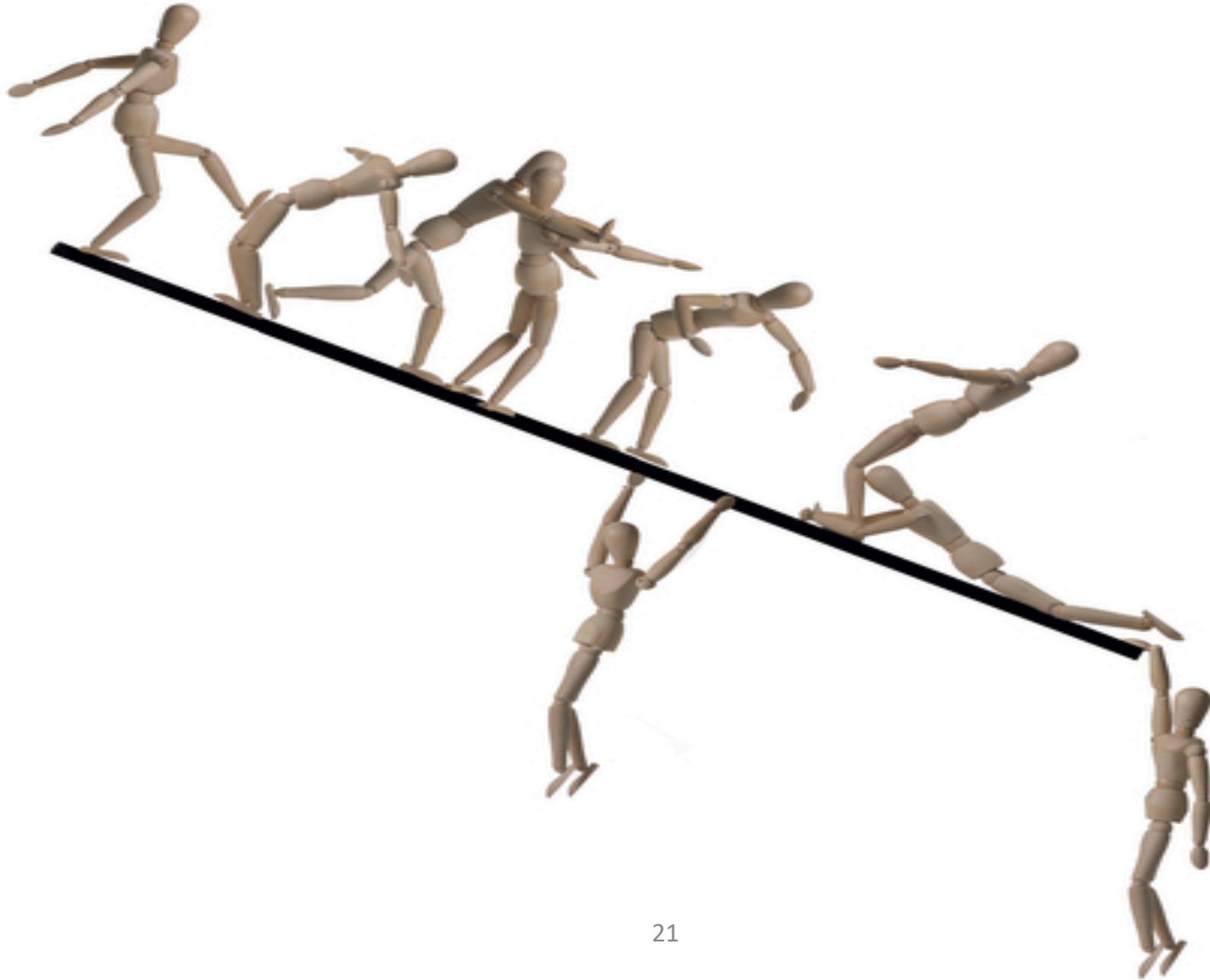
**Social Compact of Reciprocity:**  
humans are in a web of give-and-take relations; the behavior has survival value.



# Gateway Drug to Corruption



# Motivation: Slippery Slope

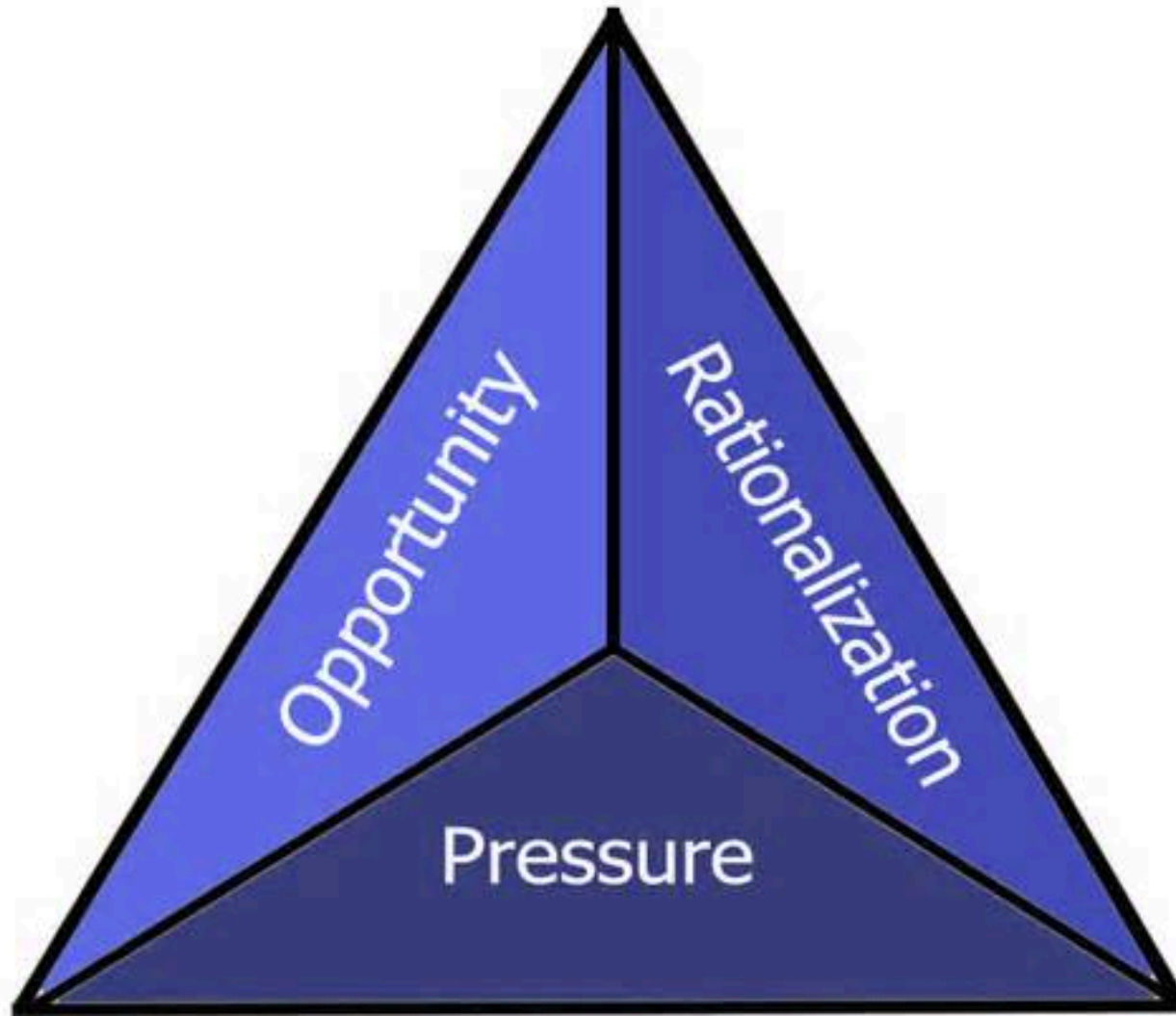


# Motivations: Status

- Save my status: Fear based
  - Lose job
  - Alcohol & Drug addiction
  - Bankruptcy
  - Divorce
- Increase my status: Greed based
  - Status symbols
  - Clothes, Neighborhood, Automobile



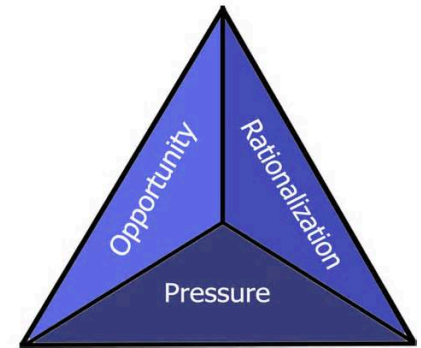
# Fraud Triangle



# Privity of Trust



The Fraud Triangle

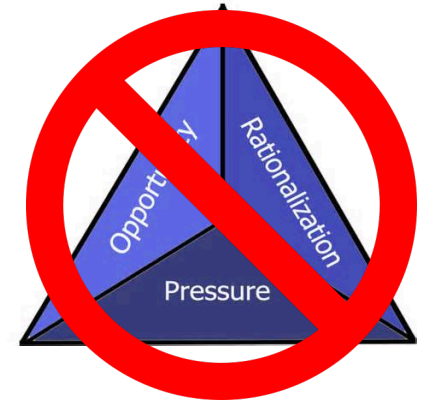




# Predatory Fraudsters



**The Fraud Triangle**



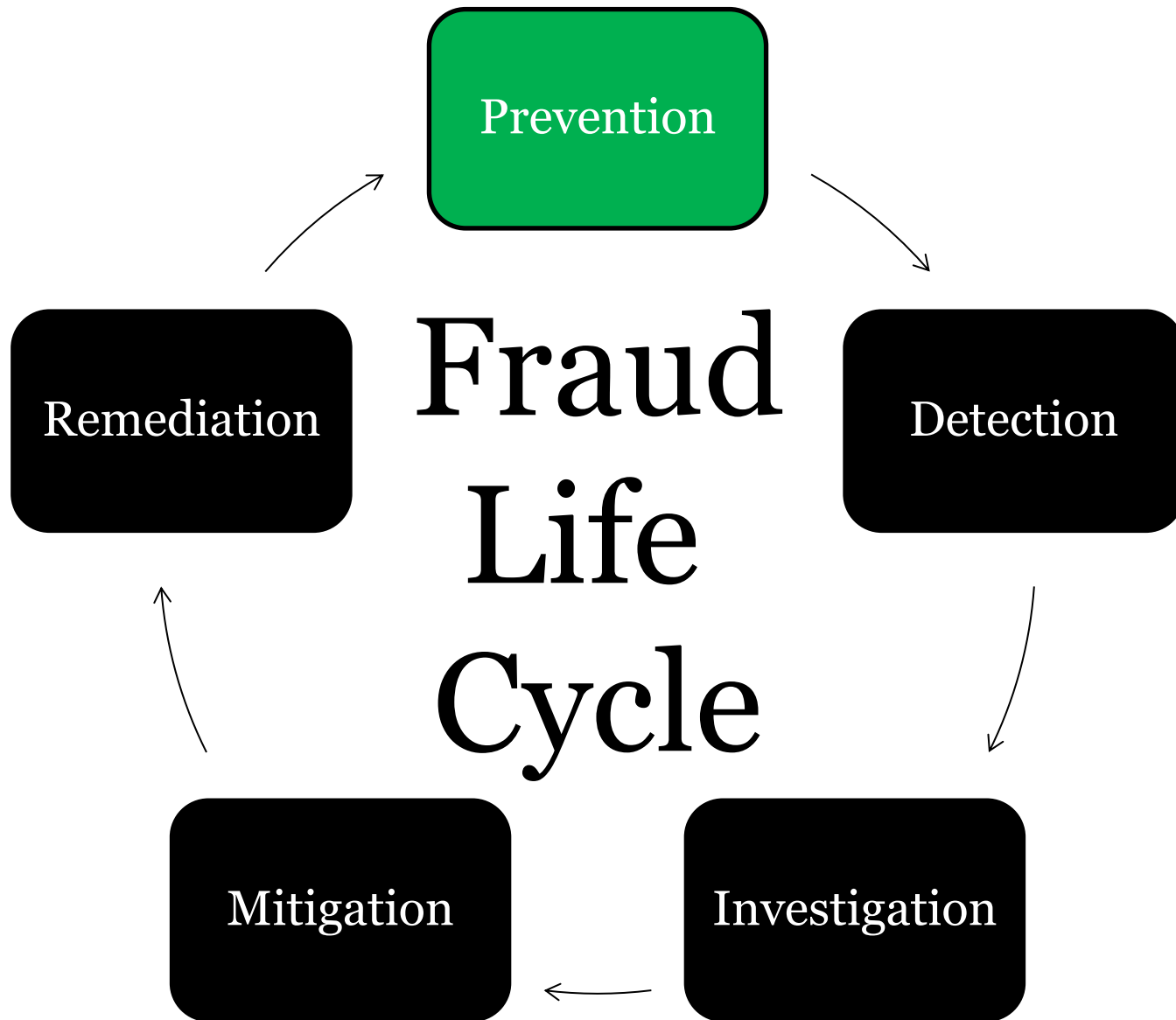
# Predatory vs. Situational



# Aggregate Threat Picture

- Fraud Tree:
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# Prevention

- Before the Storm Occurs
- COSO
- Sentencing Guidelines
- IIA's Three Lines of Defense
- Hiring Practices
- Ethics & Compliance Policies
- Training

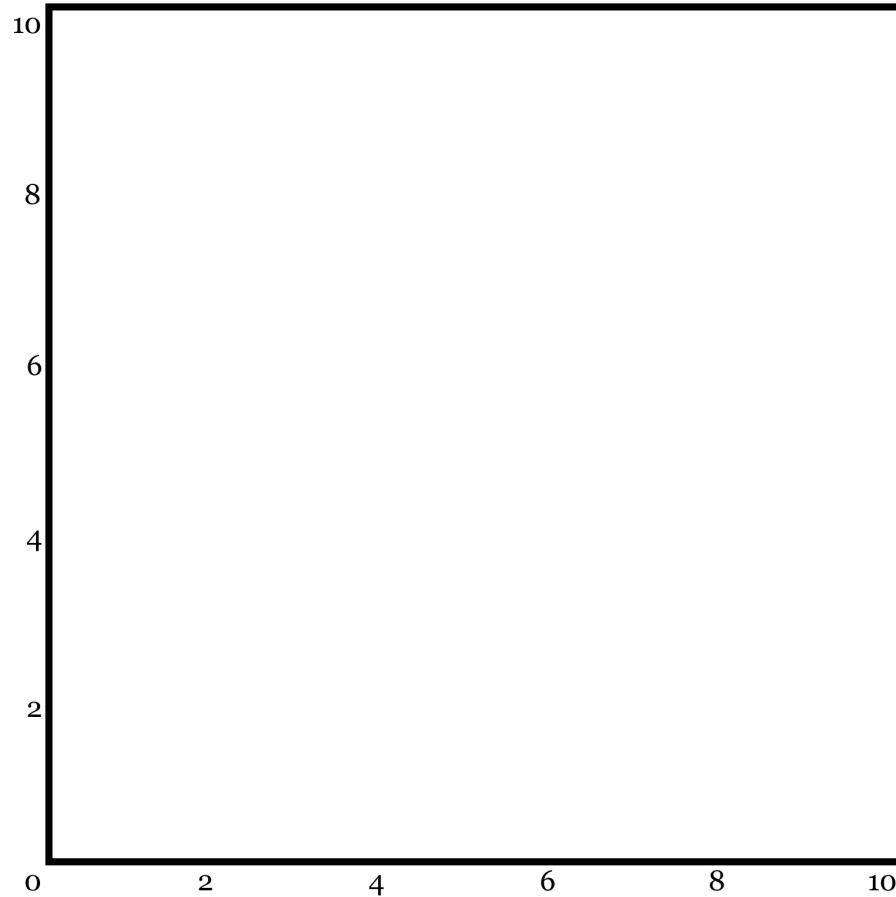
# Prevention

- Policies:
  - Code of Conduct
  - Conflicts of Interest Policy
  - Fraud Policy
- Assessments:
  - Culture Assessment
  - Fraud Risk Assessment
- Training

# Control Environment Assessment

## Soft Controls:

- Competency
- Integrity
- Training
- Shared Values
- Strong Culture



## Hard Controls:

- Policies
- Procedures
- Safeguarding of Assets
- Test Internal Controls

# Rate Your Organizations Hard Controls 1 (Poor) - 10 (Perfect)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10

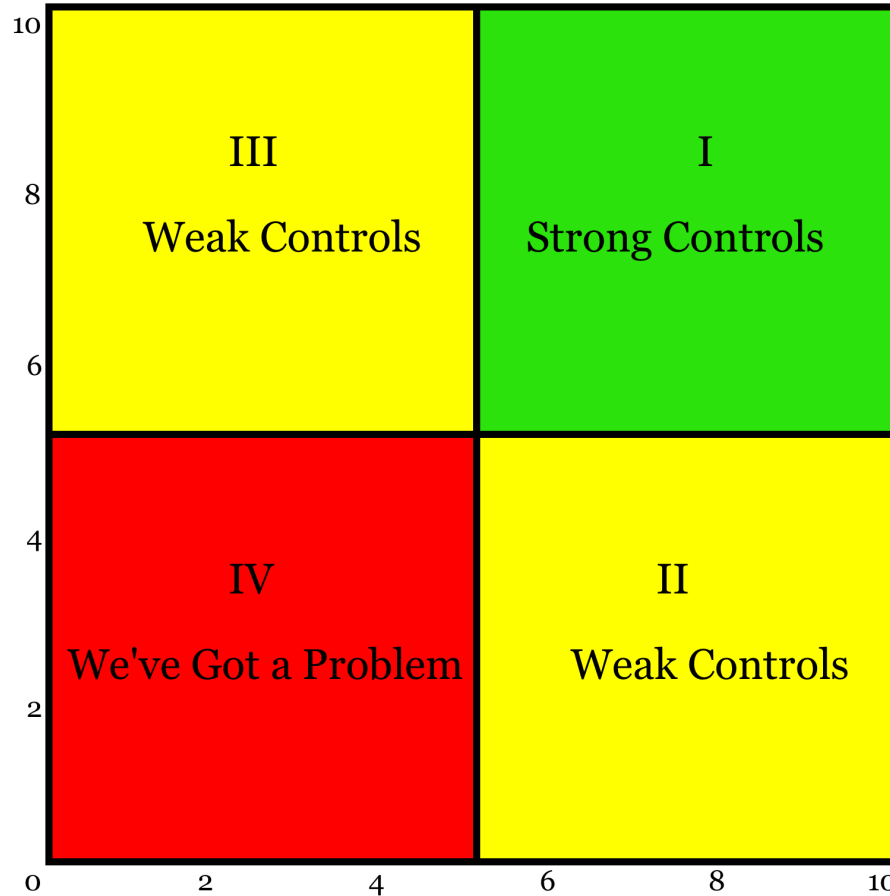
Total Results: 0



# Control Environment Assessment

## Soft Controls:

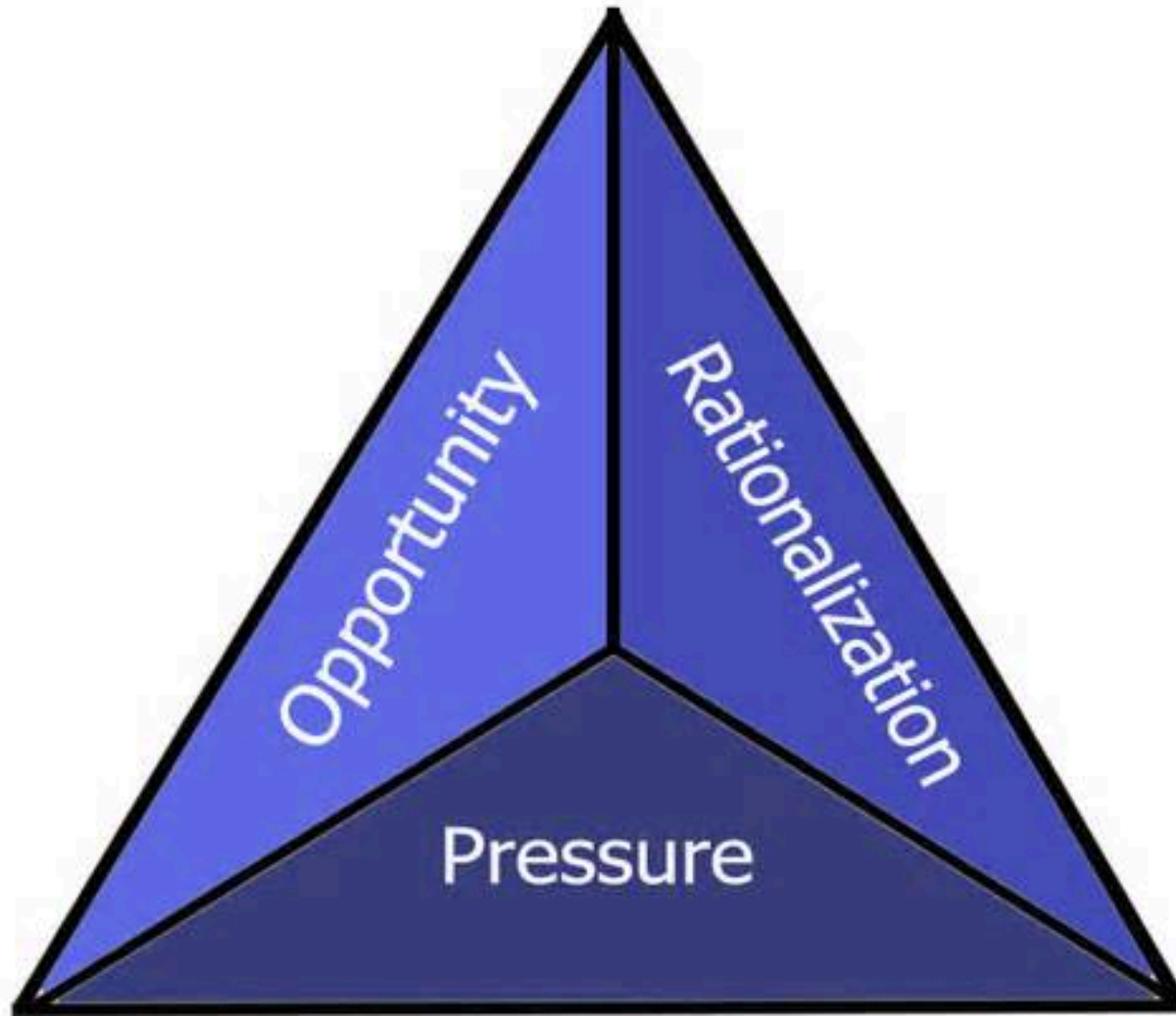
Trust  
 Competency  
 Integrity  
 Training  
 Shared Values  
 Strong Culture



## Hard Controls:

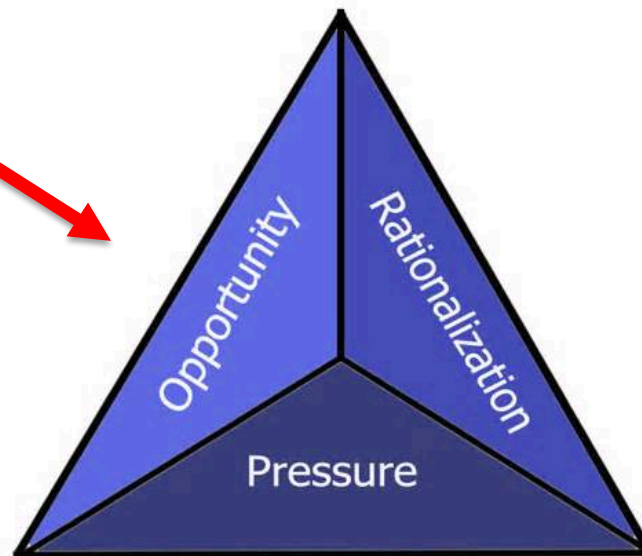
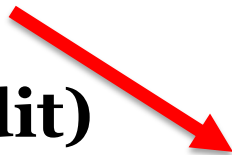
Policies  
 Procedures  
 Safeguarding Assets  
 Test Internal Controls

# Fraud Triangle

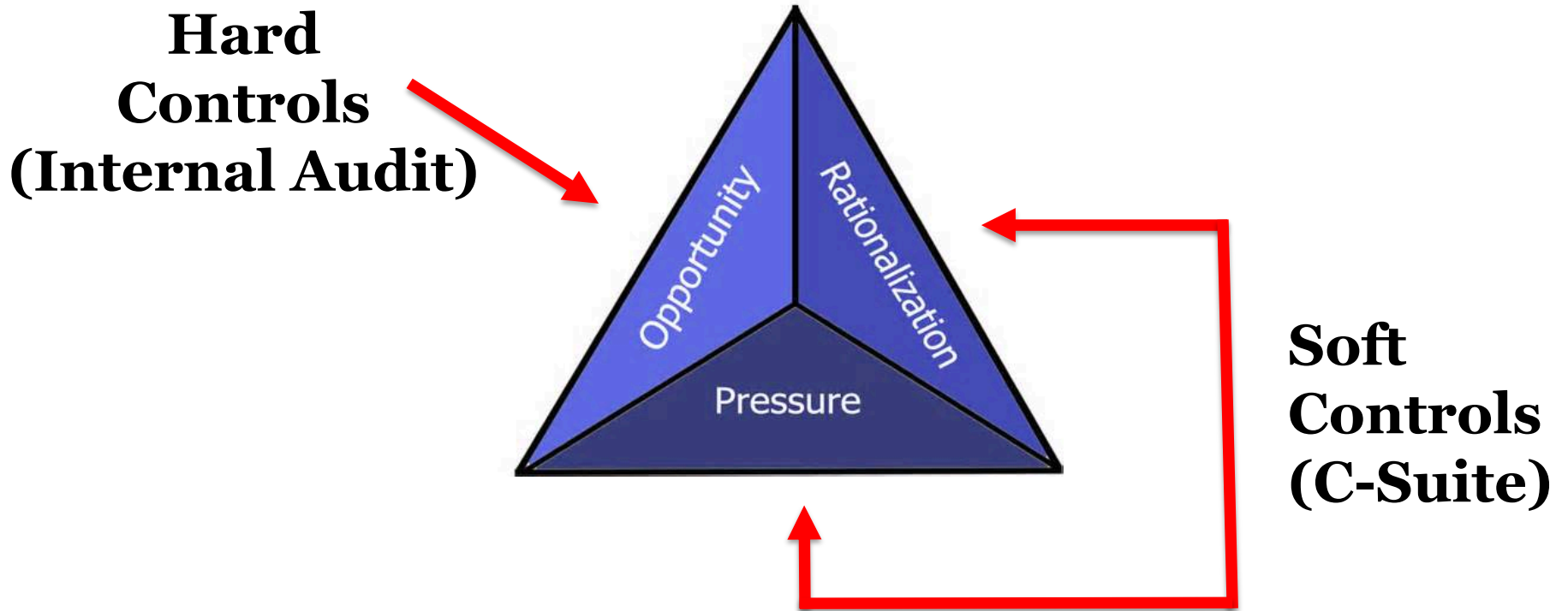


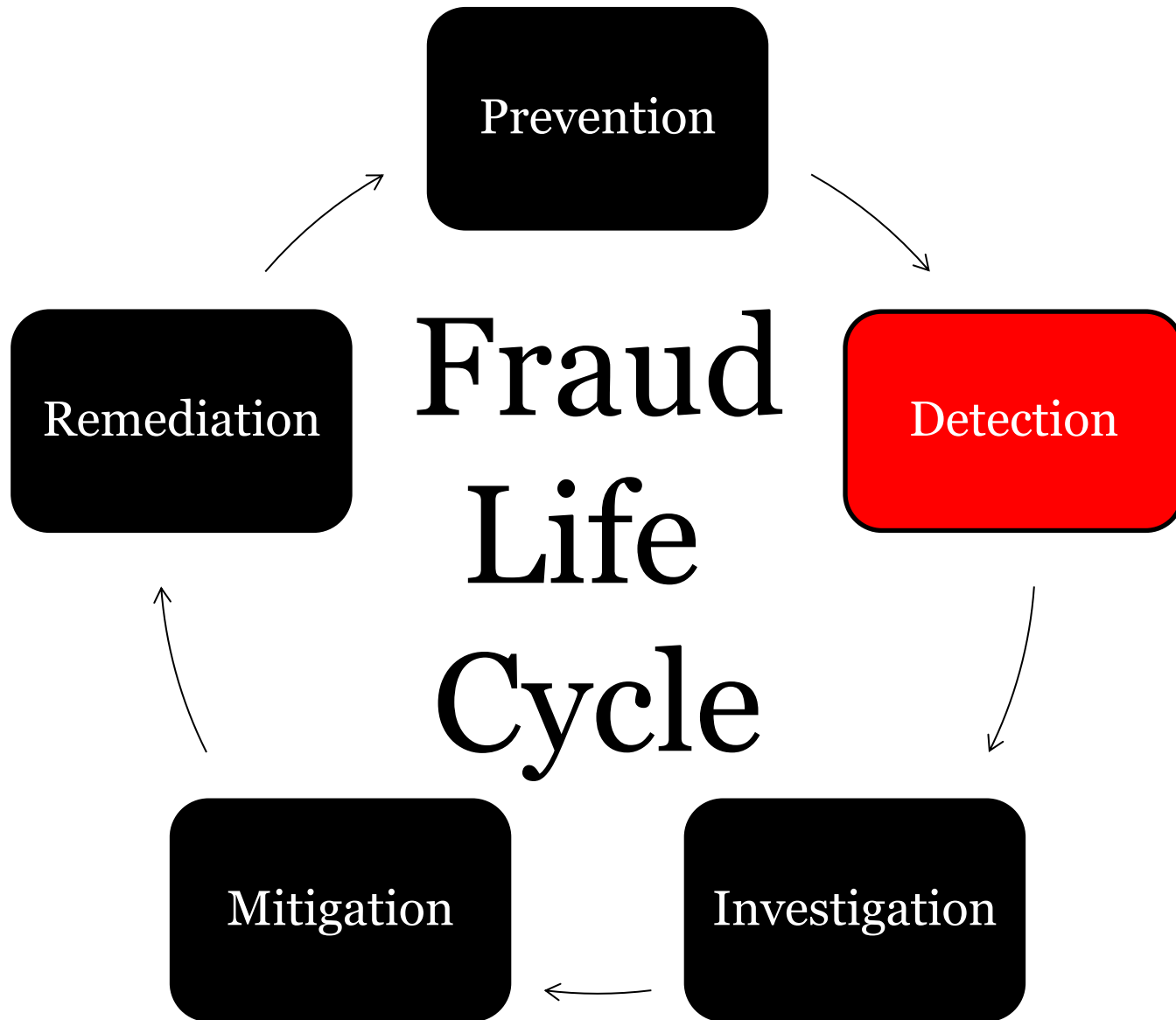
# Fraud Triangle

**Hard  
Controls  
(Internal Audit)**



# Fraud Triangle



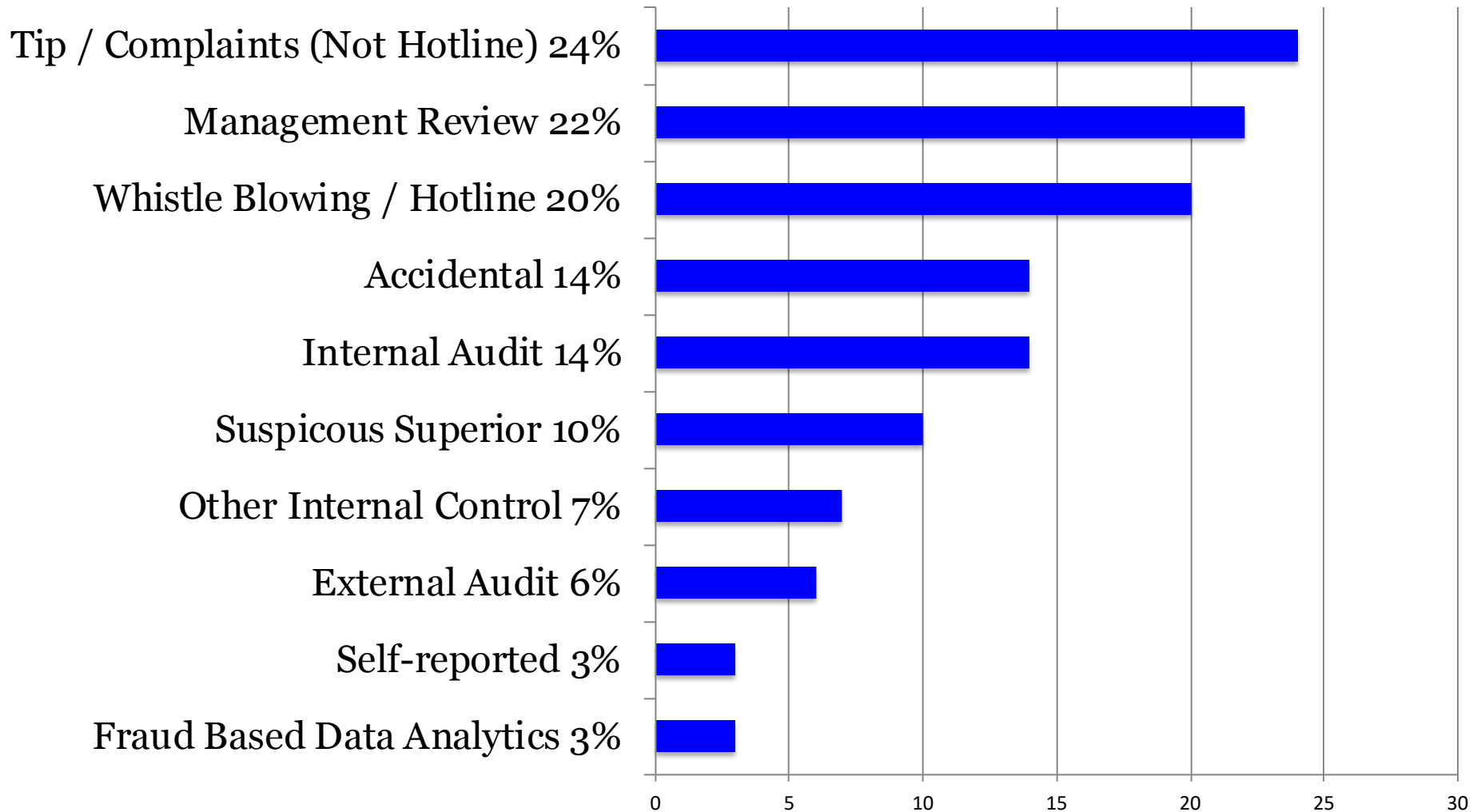


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# Finding the Fraudster



# How Frauds Are Detected\*



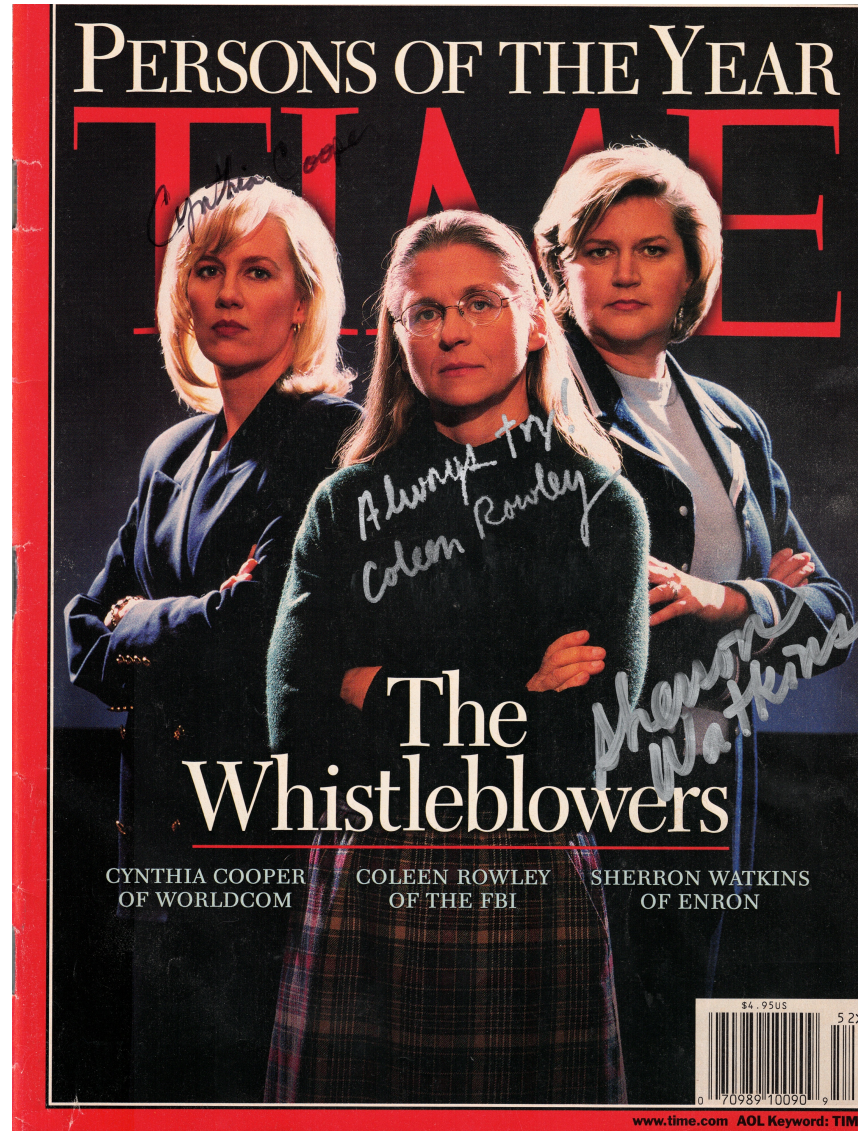
# Detection

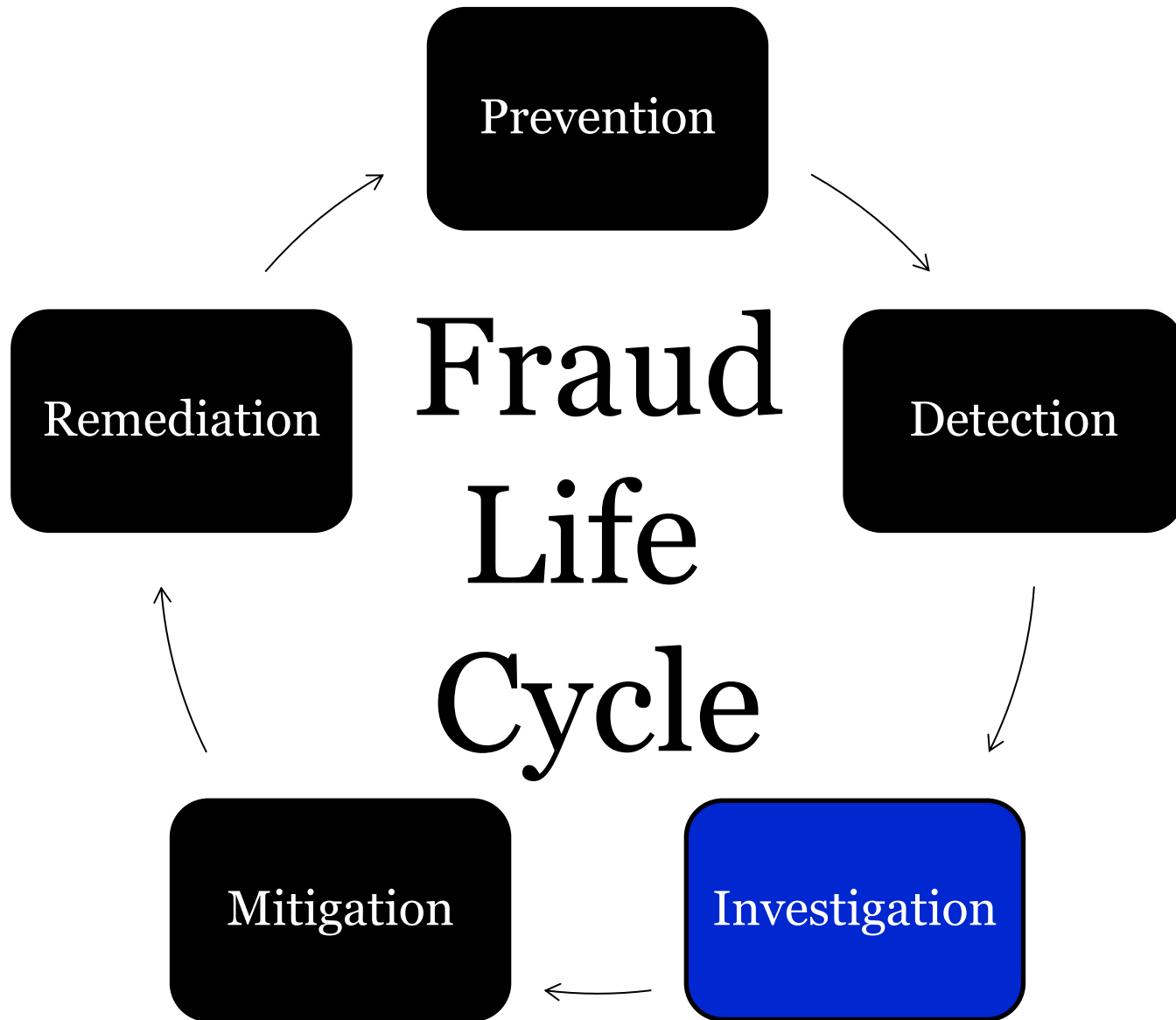
- Employee awareness
- Hot Line
- Whistle Blower
- Escalation Protocol
- Continuous Monitoring
- Behavioral Forensics





# What Do These Whistleblowers Have In Common?





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# Is An Investigation Needed?

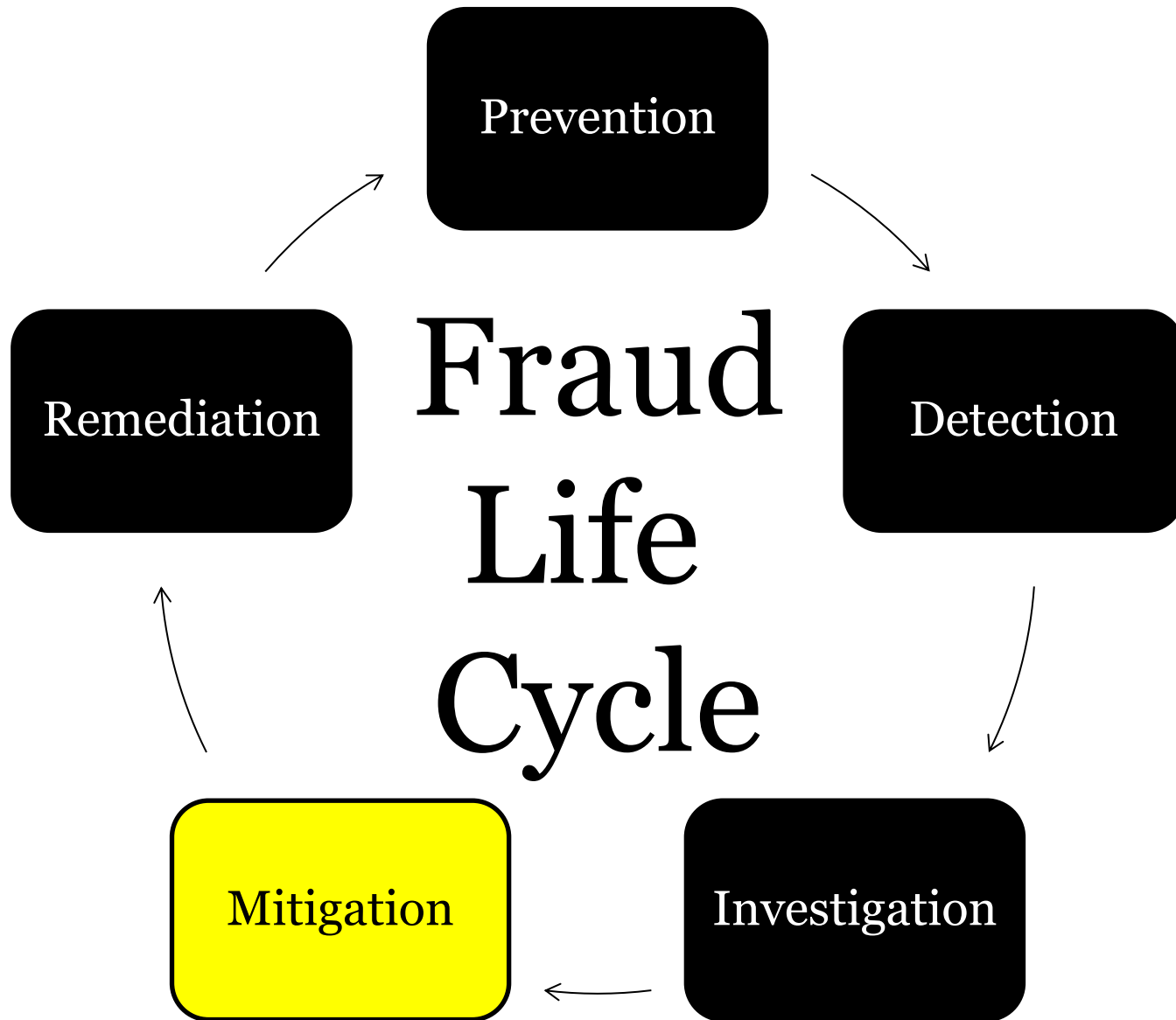


**Predication?**

# Staffing an Investigation

- Purpose of Investigation
- Parallel Government Investigation?
- Is Independence needed?
- Should it be Attorney Led?
  - Attorney-Client Privilege
  - Work-Product Doctrine
- Internal v. External Resources
- Investigative Team
- Internal talent: Audit, Security, Management

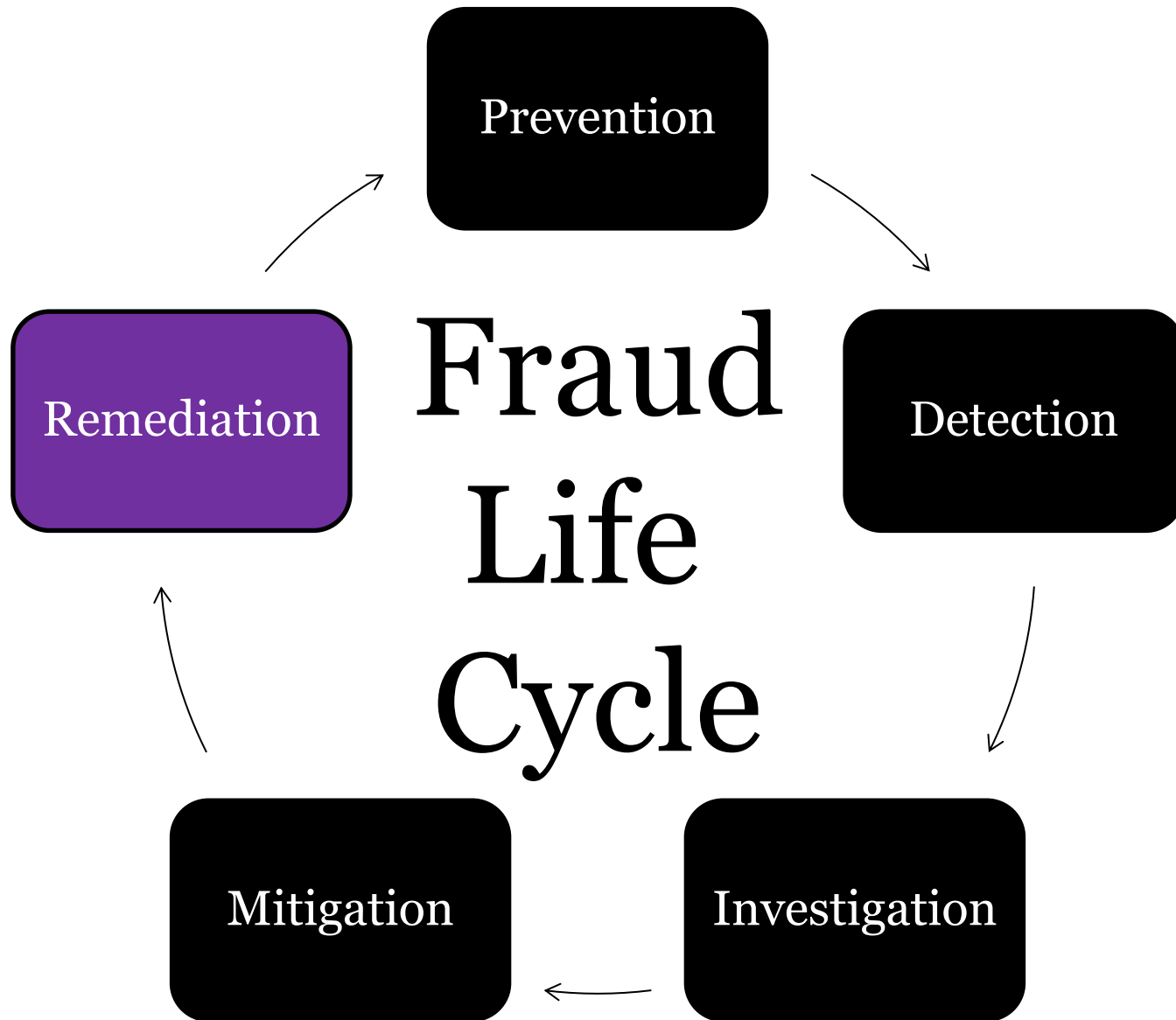




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# Mitigation

- Stop the Fraud Event
- Restore Trust To Stakeholders
- Develop Hard Control
- Assess Soft Controls
- Culture & Training



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# Remediation

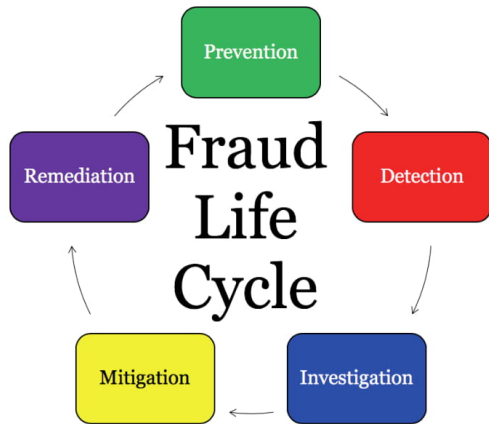
- Make victim whole
- Discharge Employee(s)
- Civil lawsuit
  - Damages
- Prosecute
- Asset Forfeiture
- Recoup Money





# SSFS#1

- Effective January 1, 2020
- Standard Applies:
  - Litigation
    - ✓ Expert
    - ✓ Consultant
    - ✓ Neutral, Mediator or Arbitrator
  - Investigation
- General Standards:
  - Professional Competence
  - Due Professional Care
  - Planning and Supervision
  - Sufficient Relevant Data



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**Vic Hartman, JD, CPA/CFF, CFE** is a nationally-recognized antifraud expert. He is a licensed attorney and CPA in Atlanta, Georgia, where he founded The Hartman Firm, LLC. Prior to founding the firm, Vic spent 25 years at the Federal Bureau of Investigation, where he served as a Supervisory Special Agent and as a Chief Division Counsel. His cases included leadership roles in the Enron and WorldCom investigations, among others. He represents organizations conducting internal investigations, represents whistleblowers, and serves as a forensic accountant. He has been a court-appointed Receiver and Examiner. He is an Adjunct Professor at two universities, has published several articles in professional journals, and regularly speaks on the topic of fraud. For more information about the author, visit [www.hartmanfirm.com](http://www.hartmanfirm.com).

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*A Retired FBI Agent Tells All*

*A Practitioner's  
Guide to Fraud*



**VICTOR E. HARTMAN** JD, CPA/CFF, CFE

# Questions



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