



Proximal Consulting Archived White Papers



The Proximal Consulting white paper series began when Proximal Consulting launched in 1999. The white papers provided precise and detailed information on cutting edge business crime topics during a period when the Internet as a source of business information was in its infancy. We are now making these white papers available again.

Whilst the specific cases and examples used in the white papers are historical, the fundamental issues and potential red flags have remained the same.

Please note that the white papers are provided as an un-edited archive: any content, laws, regulations or similar were correct at the time of publishing, but may now be out of date.

PROXIMAL CONSULTING WHITE PAPER 24 TOP TEN INDICATORS OF INSIDER/EMPLOYEE FRAUD AND A CASE STUDY OF INSIDER & EMPLOYEE FRAUD

In no particular order, what follows are the flaming red beacons which indicate you and your organisation are being ripped off by insiders:

1. Internal frauds are successful where the business area under attack has inadequate or minimal managerial control, or where the organisation or business area is subject to radical organization change.
2. Disorder in record keeping (perhaps caused by work backlogs) facilitates internal fraud, particularly where financial reconciliation is overlooked or has no separation of duties.
3. Suspicious accounting documents, such as invoices or payments that have been made without supporting documentation, require immediate investigation. If action is not taken straight away, the fraud will continue and grow.
4. Beware of payments made to such places as Austria, Luxembourg, the Czech Republic, other parts of the former Eastern Bloc, the Channel Islands, and the Isle of Man (specifically where you have no previous business relationship with correspondents in these locations). If such transfers take place immediately prior to a public holiday, your panic is justified. For the UK, beware of transfers taking place on a Friday prior to a UK Bank Holiday Monday but not a public holiday elsewhere in the world.
5. Be extremely wary of specialist work areas where the key employee closely guards his kingdom and is an acknowledged expert in his field. This is particularly important where such an employee takes all of the purchasing decisions.
6. Carefully examine employees whose lifestyle is inconsistent with their status and earnings. Seek validation of the employee's explanation of this. Don't take what you are told at face value.
7. Do not ignore suspicions where there is an incomplete audit trail, or key documents are missing or appear to have been destroyed accidentally. The exact opposite is also a warning sign, where there are extra copies of documents.
8. Many frauds occur immediately after an internal audit inspection has given the affected area a clean bill of health. The fraudster views this as a facilitator to his activities: if the auditors didn't find anything it's OK to start or continue.
9. Have a healthy disbelief and distrust of line management who comment that they do not have a fraud problem as it could not happen to them because all of their staff are totally trustworthy.
10. The best and most successful frauds are multi-layered conspiracies where your employee is only one person in a loop and possibly does not know all the links, relationships and other people involved.

Sometimes you stumble across transactions, relationships or procedures that are too unusual or unrealistic to be believed. However, and regrettably, when a fraud is occurring, even though the facts are just too strange to be credible, the relevant questions are never asked and the warning signs are ignored. Why? Because managers and colleagues want to believe the fraudster, because they trust him or her, are friends, or have worked together for years.

Every organisation has a purchasing department or equivalent. The particular organization involved in this fraud also had a totally trusted staff member who has 15 years' service. In fact she had helped to design and implement new systems within the purchasing department. Unfortunately she had identified that these systems and processes suffered from a lack of basic controls, coupled with ineffective monitoring procedures. Over a three-month period she manufactured two false invoices for the combined total of £0.5 million. As it was a large organisation, these amounts in relation to software leasing were not unusual. She forged the required authorised signatures (those of two of her bosses) and sent the documentation to a department on another site who drew the relevant cheques. The cheques were duly drawn and sent to the registered addresses of the suppliers shown, which were in fact bed and breakfast hotels. The second cheque was payable to a company called MP leasing, showing an address in Oxford. That address was a hotel on the outskirts of the city and on the day when the cheque was expected there a Mark Leasing booked into the hotel and told the proprietor that he was expecting a salary cheque, which arrived on cue. Mark Leasing went directly from Oxford to Heathrow and then to Geneva, where he disposed of the cheque in a numbered Swiss Bank account at a brass-plate institution hidden amongst many similar ones in the banking quarter. This

bank had already been credited with an earlier cheque obtained in a similar manner; it was, it must be said, not particularly concerned that the cheques were made payable to a payee different from their account holder. The fraud was discovered midstream by accident, reinforcing available statistics which say that 50 per cent of all frauds are discovered by chance. The resulting investigation in England and Geneva ended with the recovery of 80 per cent of the stolen funds and the arrest, trial and imprisonment of the staff member and her son who acted as the runner.

Revised November 2006

| | | |
|--|--------------------------------|---|
|  Proximal Consulting | | |
| Email: enq@proximalconsulting.com | Telephone: +44 (0) 1672 516725 | Offices: Poughcombe Barns Rue Du Rhone 14 Ogbourne St Andrew 1204-Genève Wiltshire Switzerland SN8 1SE UK |

Proximal Consulting have unrivalled experience in providing KYC enhanced due diligence background reports on individuals and companies on a global basis. We also offer a complementary range of services including AML training, country risk reports and bespoke investigations.

Our enhanced due diligence reports are tailor-made to our clients' specifications. They are totally different from the usual database-led reports that often fail to meet enhanced due diligence requirements. Our reports present clear, accurate and confidential findings which enable our clients to make informed business decisions and to fulfil their AML obligations.

We work with a variety of global clients including regulatory agencies, law firms, individual companies, private banks, trust companies and other firms in the financial sector.