



**ANNUAL
CONFERENCE
& EXHIBITION**

May 18-22, 2024

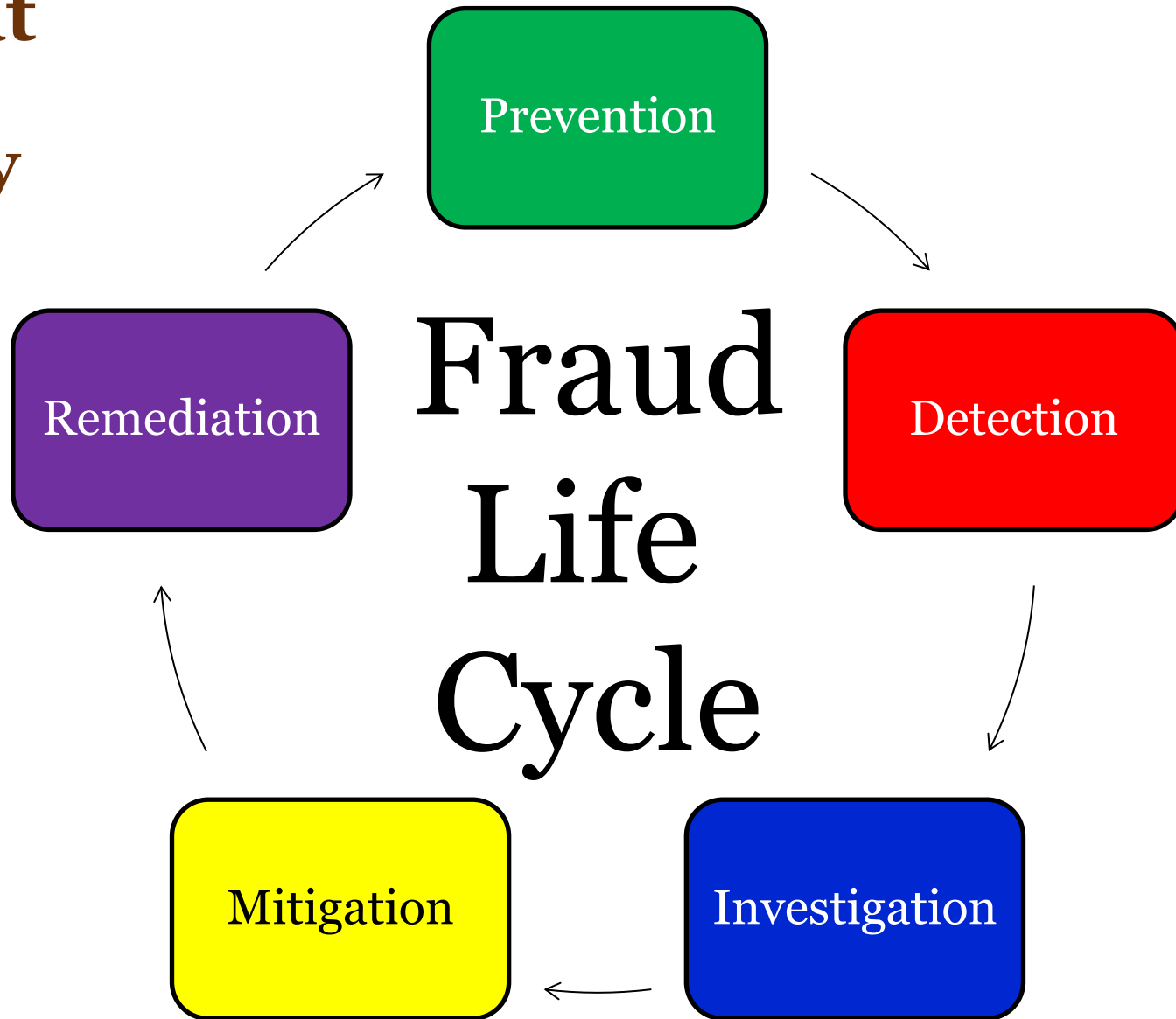
Grapevine, Texas

Your Path to
**BIGGER &
BETTER**

Education | Leadership | Networking | Connections

**The Honest Truth About Fraud—
A Former FBI Agent Tells All**

**What
&
Why**

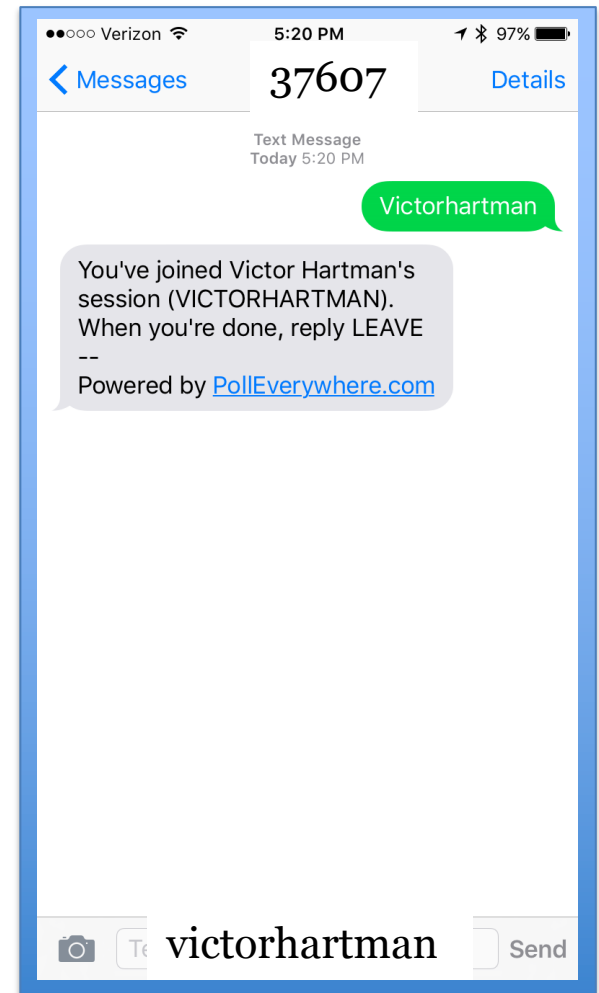


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Setup Poll Everywhere

Text Number: 37607

Text Message: victorhartman



 Text **VICTORHARTMAN** to **37607** once to join, then **1, 2, 3, 4, or 5**

What's your favorite cupcake?



1



2



3



4



5

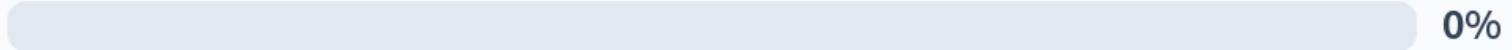
Total Results: 0

Powered by  **Poll Everywhere**

Start the presentation to see live content. For screen share software, share the entire screen. Get help at pollev.com/app

What decription do you most closely identify with?

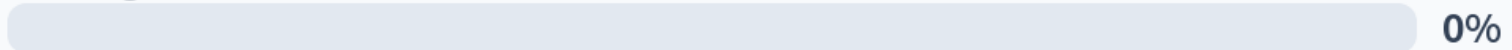
Internal Audit



CFO



Management



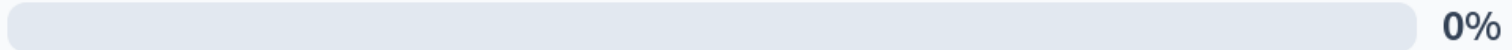
Consultant



CPA



Other



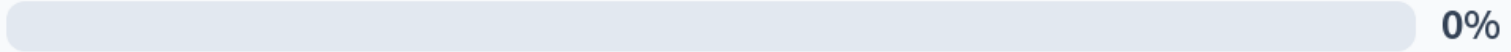
Why Do People Commit Fraud?

Why

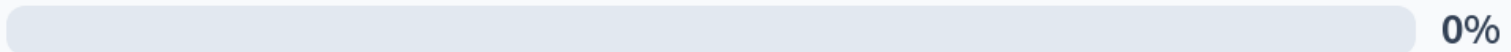


Why do people commit fraud?

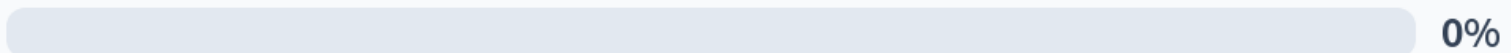
Drugs / Alcohol



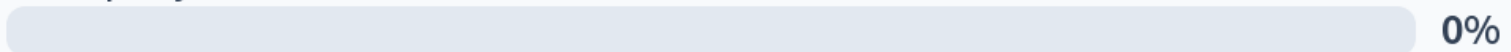
Financial Issues



Greed



Company Pressure



"They owe me"



It May Not Be The “G” Word

Greed



Emotions Drive Fraud

Shame Enjoyment Fear Interest

Emotions as Data

Anger Surprise Distress
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.



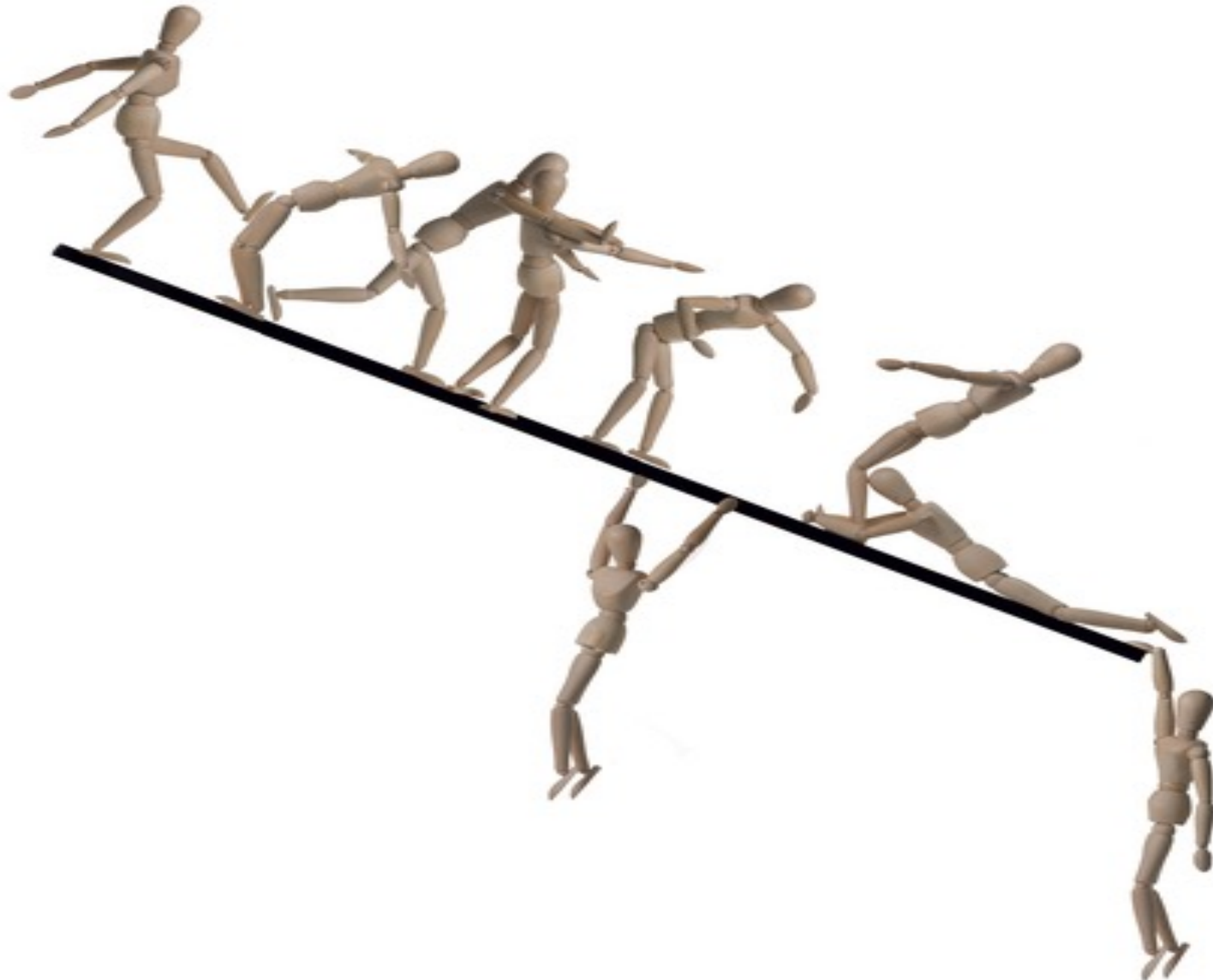
Social Compact of Reciprocity

The Rule: We should try to repay, in kind, what another person has provided us.

—Dr. Robert B. Cialdini,
Influence: The Psychology of Persuasion



Motivation: Slippery Slope



Motivations: Status

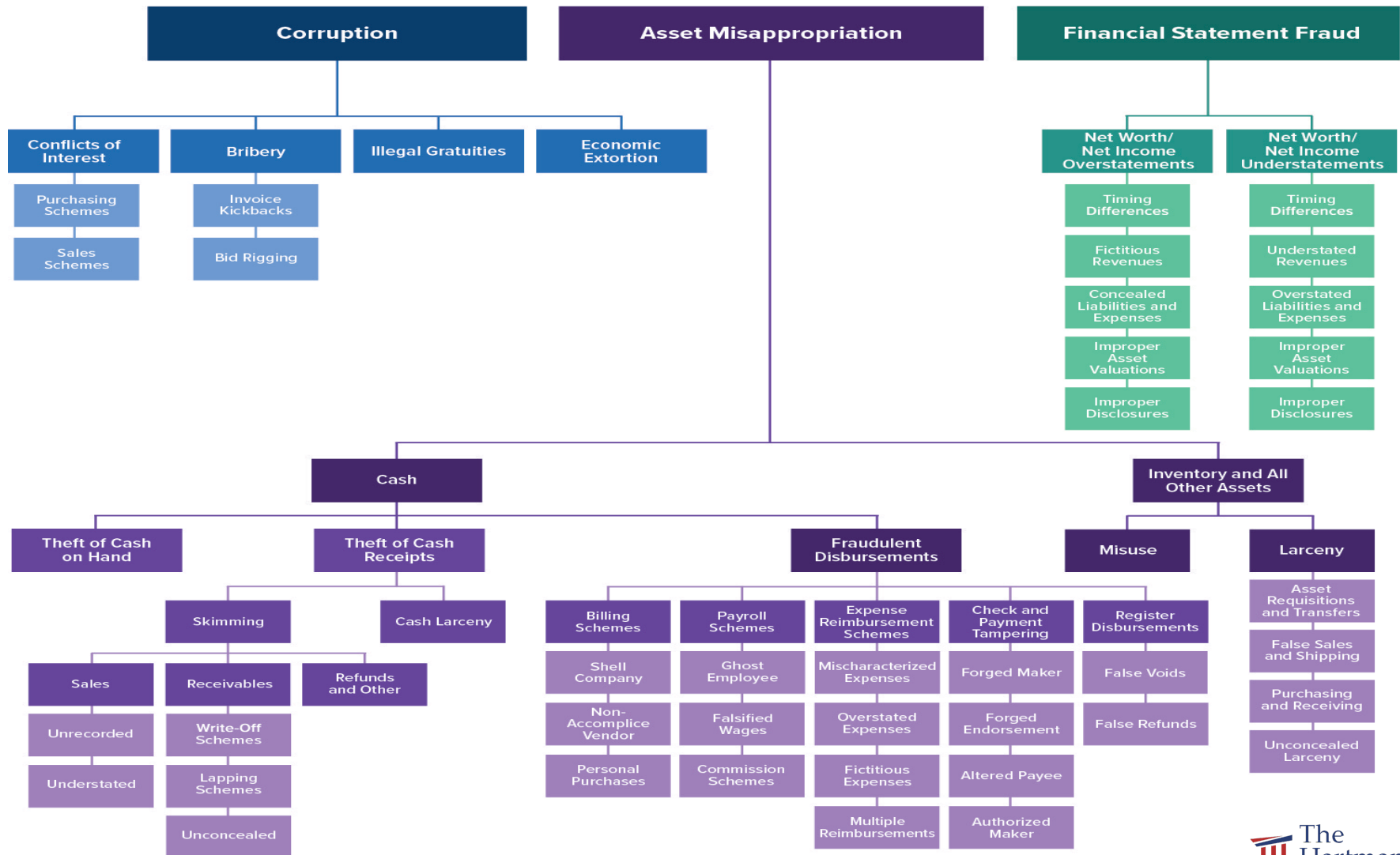
- Save my status: Fear based
 - Lose job
 - Alcohol & Drug addiction
 - Bankruptcy
 - Divorce
- Increase my status: Greed based
 - Status symbols
 - Clothes, Neighborhood, Automobile



A heart-shaped frame with a black border, containing a photograph of a blue sky and a blue ocean. The text "Fraud Threat Picture" is overlaid in red.

Fraud Threat Picture

Occupational Frauds



Corruption



Corruption is Different

- No Paper Trail
- Lack of Real Knowledge
- Lack of Parallel Investigations
- Lack of the right controls
- Victims Never Learn of Fraud
- Underreported
- Root Cause Analysis



Corruption

■ Bribery:

- Giving or receiving
- Any thing of value
- To influence an act (commercial or government)

■ Conflicts of Interest:

- An agent has a duty of loyalty to its principal.
 - ✓ Examples: officers, directors, employees, trustees, brokers, attorneys, accountants, contractors, etc.
- Elements:
 - ✓ An agent taking an interest in a transaction or enterprise
 - ✓ That is adverse
 - ✓ To the principal and
 - ✓ That is not disclosed to and approved by the principal

Conflicts v. Bribery

- Most bribery schemes could also be considered conflicts of interest.
- Primary difference between the two schemes is in the fraudster's motive:
 - Bribery motive = Kickback
 - Conflict of interest motive – hidden interest



Al J. Hurley

- County Commissioner, Sumter County Board of Commissioners
- Detroit Defendant Terrance Parker
- \$5,000 Bribe for Andersonville Depot
- \$15,000 Bribe for a race track project with two fictitious insider contacts.
- Convicted:
 - Extortion
 - Government Program Fraud
 - Lying to an FBI Agent



Corruption: **At Risk** **Government Officials**



Elected
Officials



Subject
Matter Expert



Procurement
Official

City of Atlanta Bribery



Mitzi Bicker
“Bag Women”
Former Director of Human Resources
City of Atlanta

Received \$2 Million in Bribes
Steered \$20 Million in Contracts



E. R. Mitchell
Contractor



Charles Richards
Contractor

Atlanta Bribery Scandal

City of Atlanta Bribery



Jo Ann Macrina
Commissioner Watershed Management
City of Atlanta



Adam Smith
Chief Procurement Officer
City of Atlanta



Jeff Jafari
Contractor

What are the Root Causes of Corruption?



Social Compact of Reciprocity

The Rule: We should try to repay, in kind, what another person has provided us.

—Dr. Robert B. Cialdini,
Influence: The Psychology of Persuasion



Big Bang Theory: Gift Exchange



Gateway Drug to Corruption



Procurement Corruption

- Bid Suppression or Bid Rotation
- Bid Tailoring
- Emergency Contract
- Insider Information
- Need Recognition
- Sole Source Contract
- Split Purchase
- Unbalanced Bid



Who Commits Construction Fraud?

- Contractor Management
- Subcontractors
- Contractor Personnel
 - Procurement Schemes
 - Kickbacks
- Minority Business Enterprise (passthrough schemes)
- Everyone in the process



Construction Fraud

- Falsifying Payment Applications
 - Accounts for half of Construction Frauds
 - Material Costs inflated
 - Payapps outside scope of work
 - Improper wage rate and category
 - Rental of owned equipment
- Corruption
 - Bid rigging
 - Bid rotation
- Internal Frauds



P-Card Abuse

- Two People at Fault
 - Employee
 - Employee's Supervisor
- Solutions
 - Policy
 - Continuous Monitoring
 - Auditing
 - Prosecution



Nonoccupational Frauds

Nonoccupational Frauds

- Cyber Scams
- Scams (e.g. con artists, elder abuse, romance)
- Securities Fraud
- Government Fraud
- Insurance Fraud
- Financial Institutional Fraud
- Bankruptcy, Matrimonial, and Business Divorce Fraud
- Theft of Intellectual Property and Information
- Money Laundering
- Generative Artificial Intelligence Enhanced Frauds

Ransomware



Oops, your files have been encrypted!

What Happened to My Computer?

Your important files are encrypted.

Many of your documents, photos, videos, databases and other files are no longer accessible because they have been encrypted. Maybe you are busy looking for a way to recover your files, but do not waste your time. Nobody can recover your files without our decryption service.

Can I Recover My Files?

Sure. We guarantee that you can recover all your files safely and easily. (But you have not so enough time.)

You can try to decrypt some of your files **for free**. Try now by clicking <Decrypt>. If you want to decrypt all your files, you need to **pay**.

You only have 3 days to submit the payment. After that the price will be doubled. Also, if you don't pay in 7 days, you won't be able to recover your files forever.

How Do I Pay?

Payment will be raised on
5/15/2017 16:25:02

Time Left
02:23:58:28

Your files will be lost on
5/19/2017 16:25:02

Time Left
06:23:58:28

[About bitcoin](#)

[How to buy bitcoins?](#)

[Contact Us](#)

 **bitcoin**
ACCEPTED HERE

Send \$300 worth of bitcoin to this address:

15zGqZCTcys6eCjDkE3DypCjXi6QWRV6V1

[QR Code](#)

[Copy](#)

[Check Payment](#)

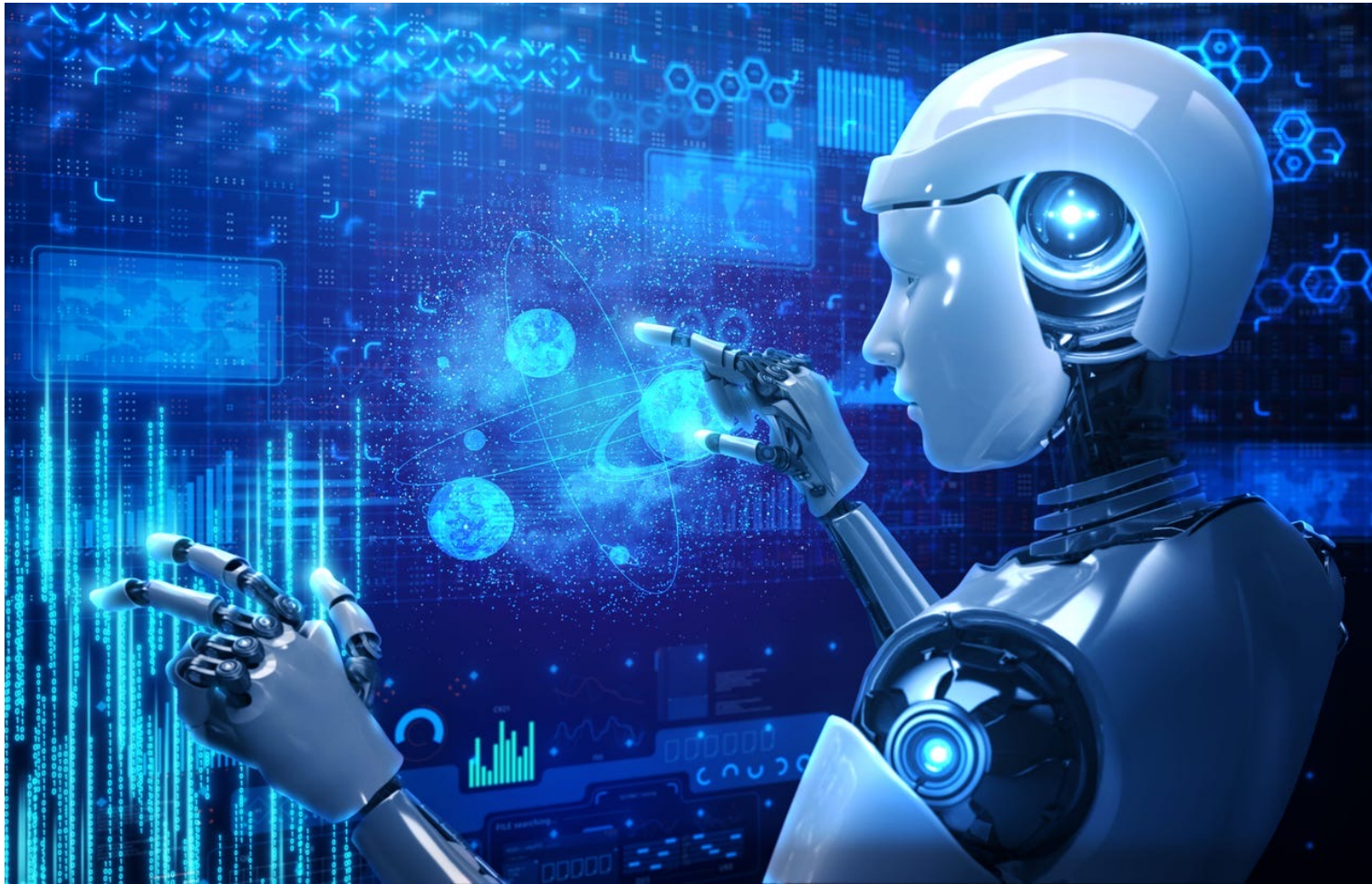
[Decrypt](#)

Business Email Compromise

- “Vendor” to Employee
 - Phone
 - Fax
 - Spoofed email
- “Employee” to Employee
 - Spoofed or hacked email
- “Employee” to Customers
 - Hacked email



Generative Artificial Intelligence Fraud?



Voice Clones



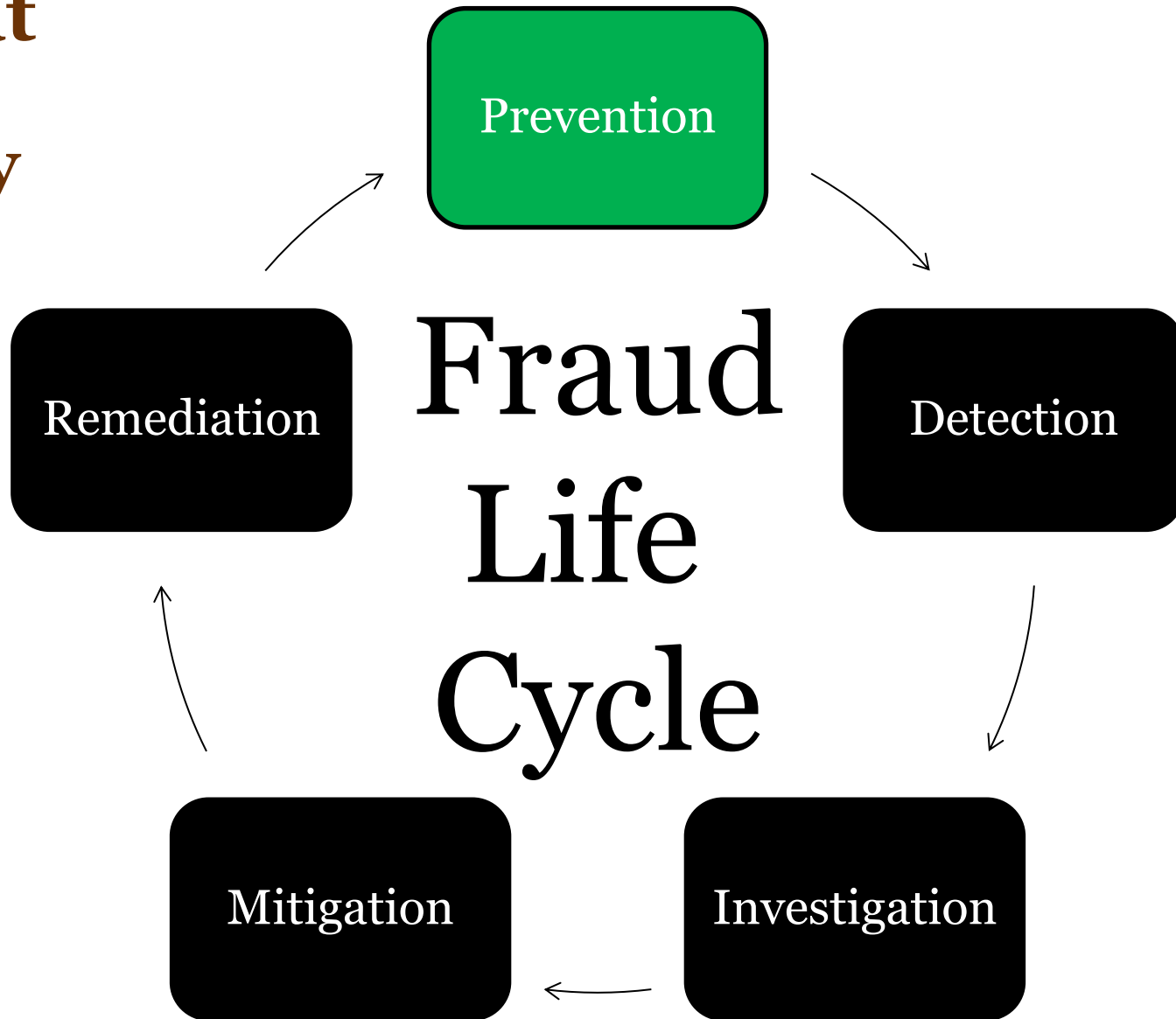
“AI tools, particularly voice clones, are supercharging scams.”

Lina Khan
Chair, Federal Trade Commission

AI Frauds

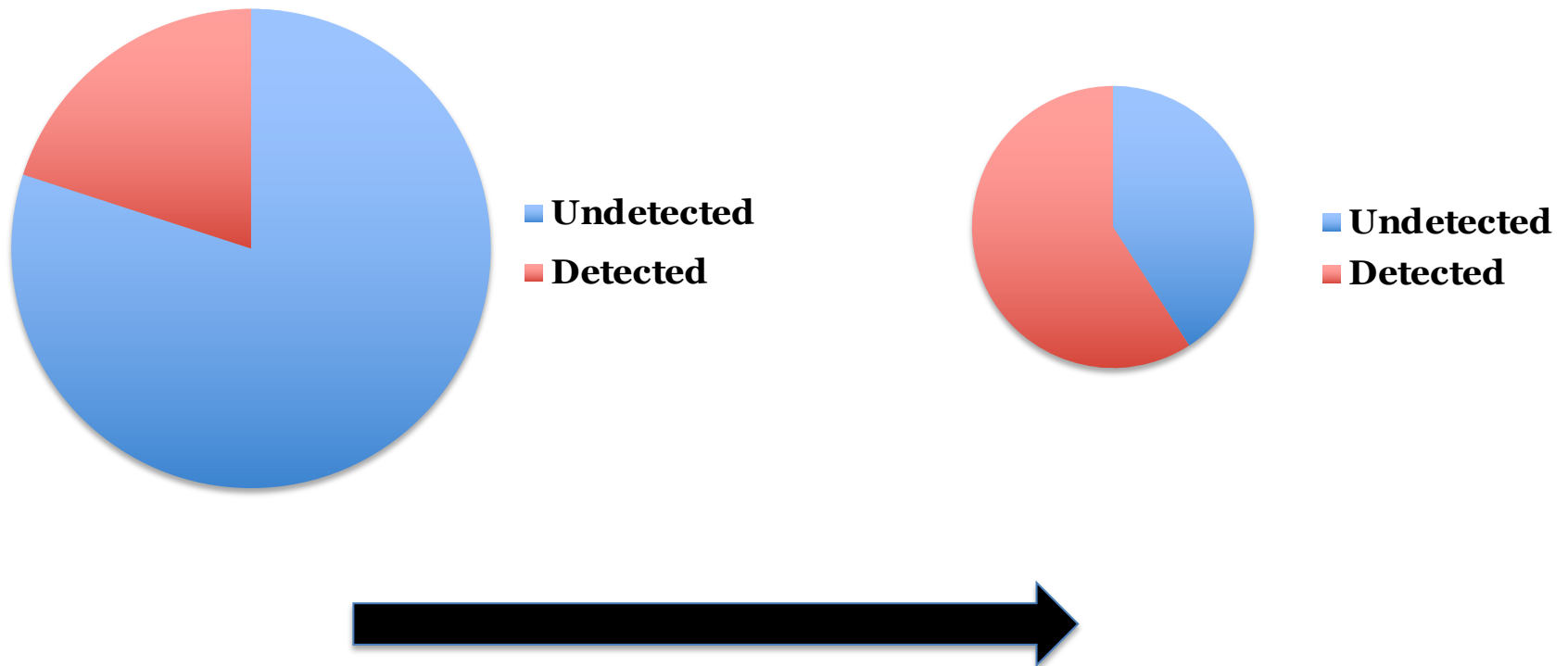
- Emails Scams
- Business Email Compromise
- Deepfake Audio & Video
- Semiconductor Espionage
- Copyright Frauds
- Malicious Code
- Student Cheating
- Pornography
- Training Data
 - Steal Training
 - Adversarial Machine Learning

What & Why



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Our Goal



Analysis

- What can go wrong?
- What does it look like?
- How can we fix it?



Construction Contract Controls

- Clearly defined project scope & specifications
- Billing & documentation requirements
- Strong audit clauses
- Termination for cause
- Termination for convenience

Audit Frequently

- Audit at beginning, during, and end
- Test contractor internal controls
- Test your own internal controls
- Tie contractor WIP to Payment Applications



Prevention: Check Fraud Defenses

- Switch to electronic payments
- Positive Pay
- Secure check stock
- Do not use signature Stamps
- Reconcile checkbook
- Owner / Senior manager receives bank and credit card statements

Prevention

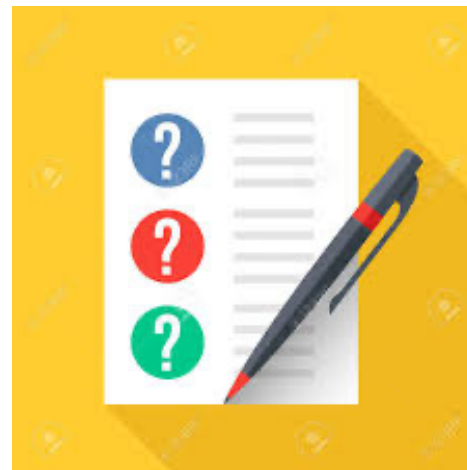
- Policies:
 - Code of Conduct
 - Conflicts of Interest Policy
 - Fraud Policy
- Assessments:
 - Culture Assessment
 - Fraud Risk Assessment
- Training

Fraud Risk Assessment

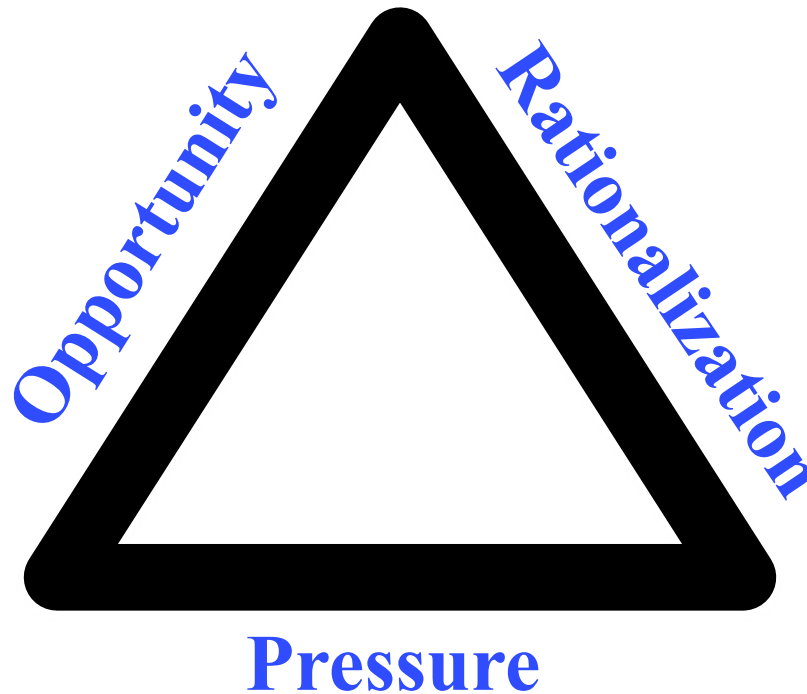
- Think Like a Fraudster
- It's Akin to an Investigation
- Interview All Key Stakeholders
- Game Theory
- Corporate Fraud Council
- Connecting the Dots

Key Questions

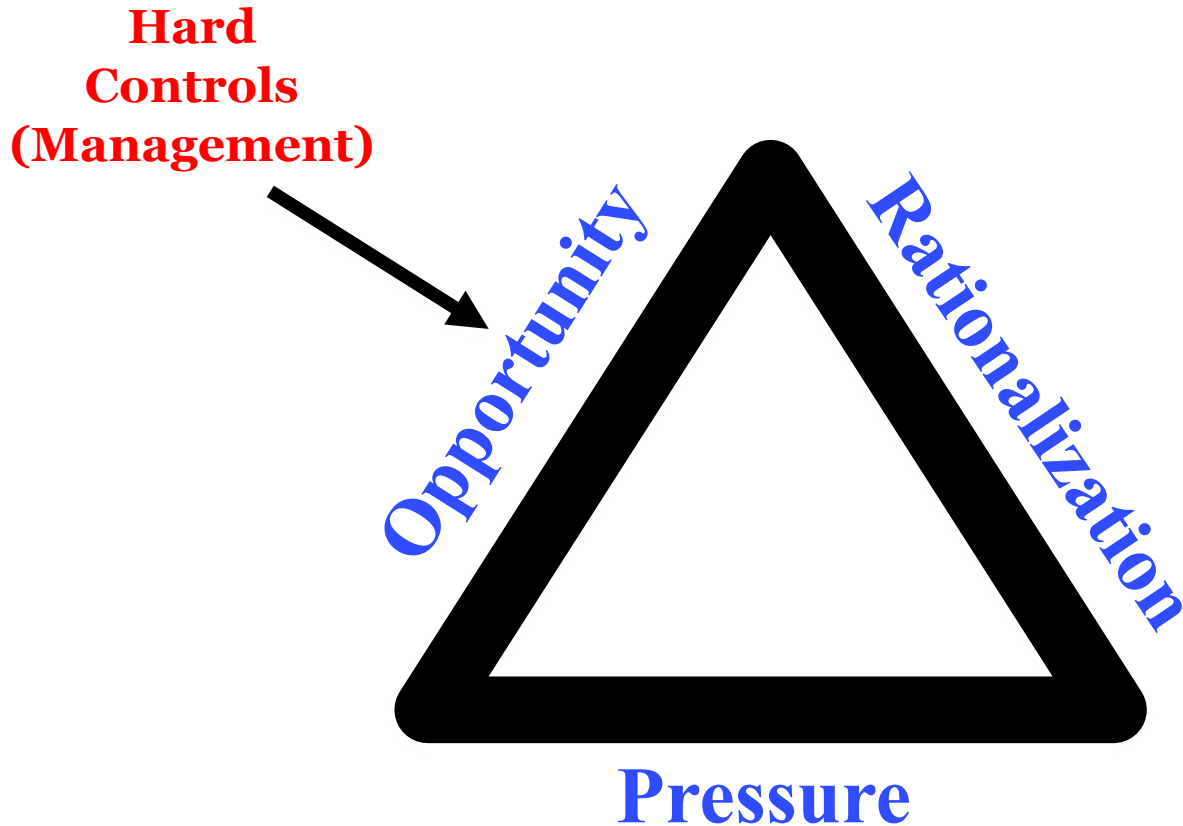
- What vulnerabilities do you see in the organization?
- If someone wanted to commit fraud, how could it be done?
- What controls do you think should be put in place?
- If somebody saw something inappropriate, would the person report it?



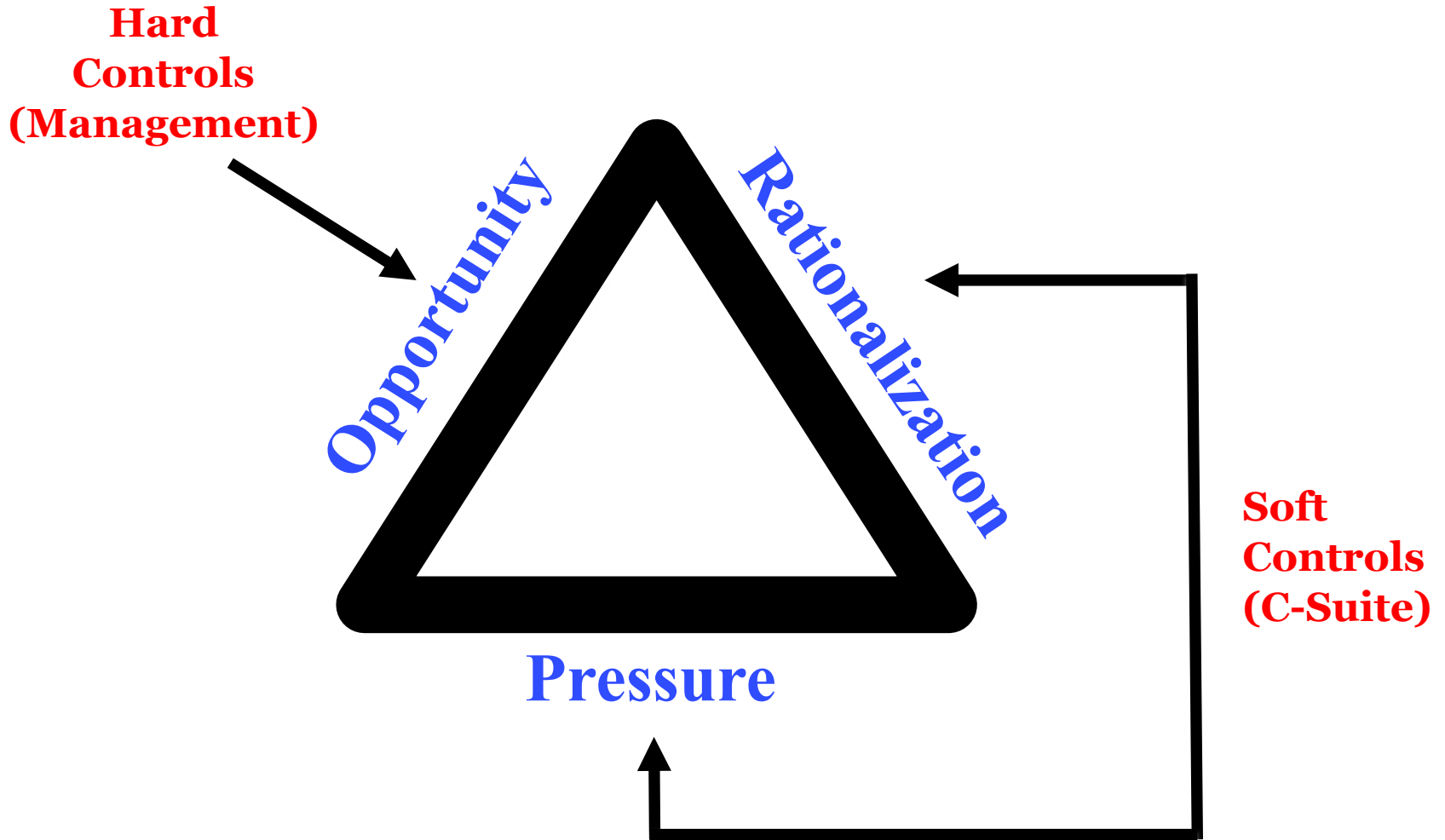
Fraud Triangle



Fraud Risk Ownership Model



Fraud Risk Ownership Model



Control Environment

■ **Hard Controls**

(Lowers Opportunity)

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

■ **Soft Controls**

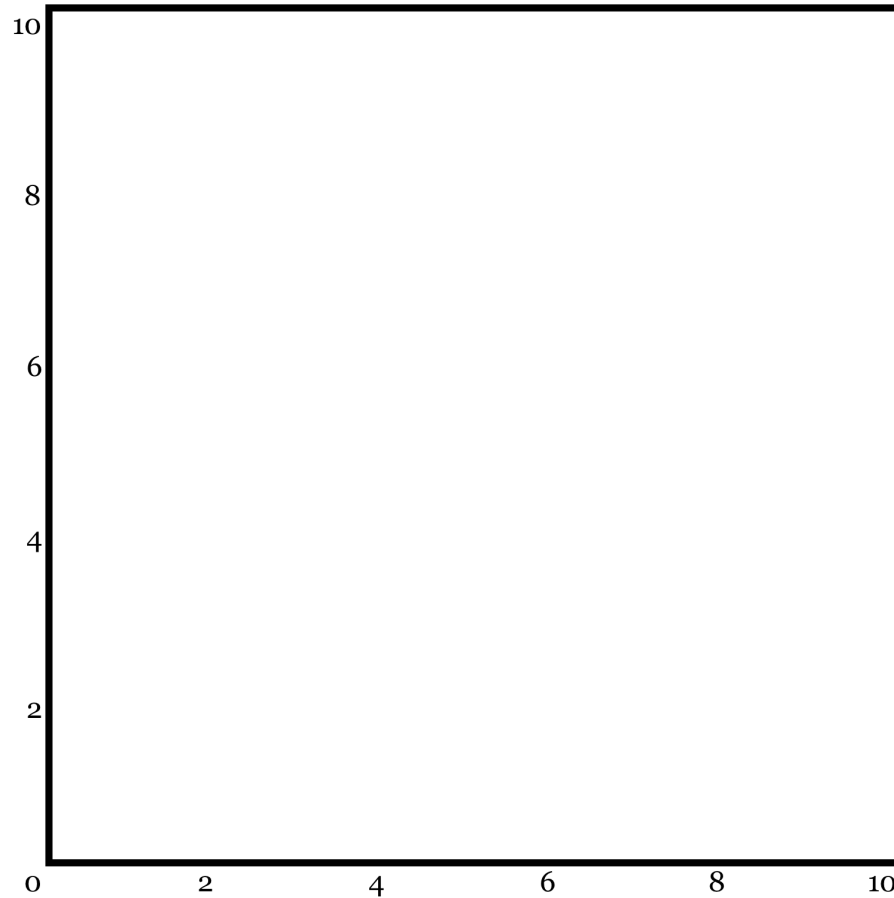
(Lowers Pressure & Rationalization)

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

Control Environment Assessment

Soft Controls:

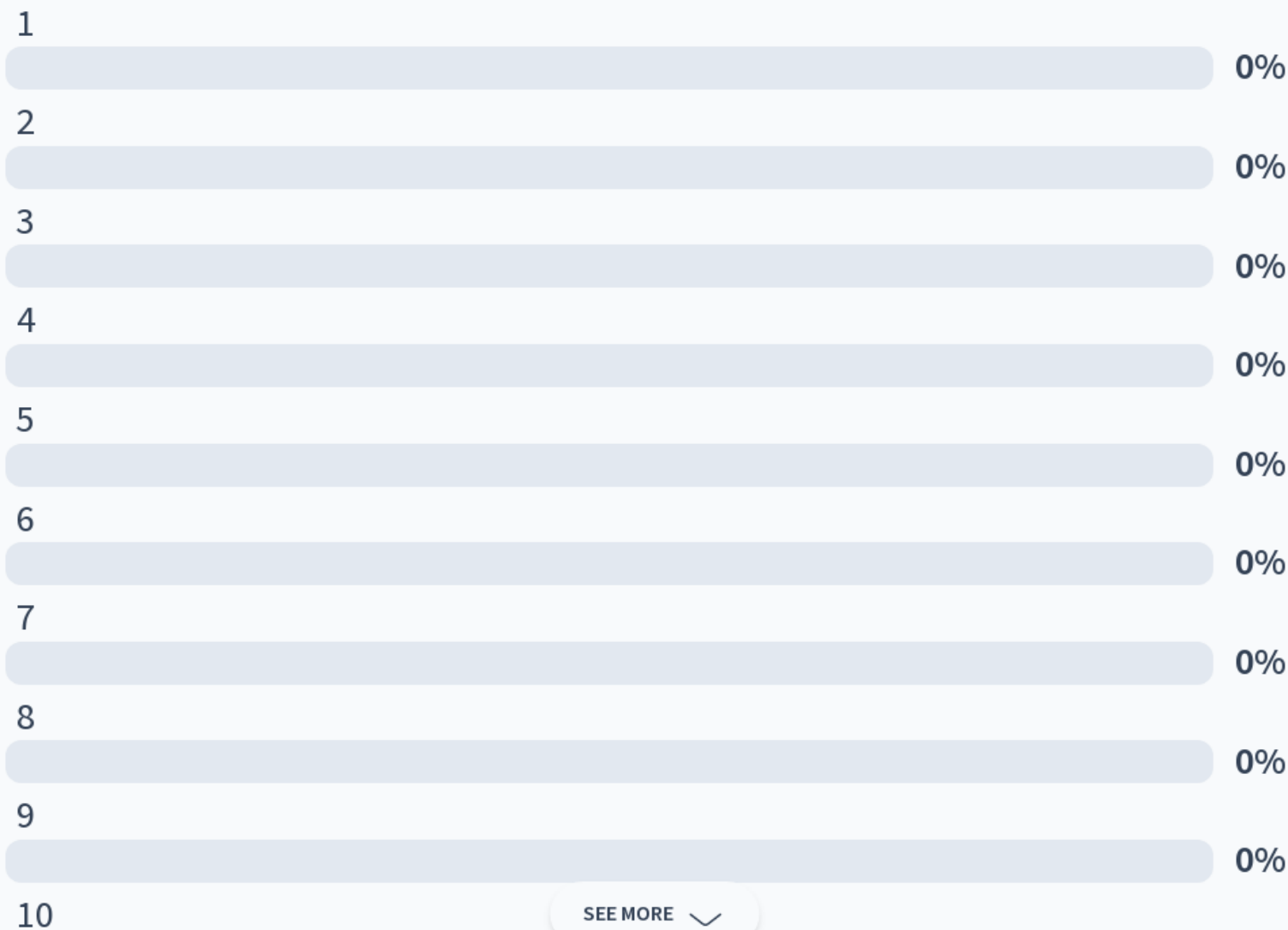
Competency
Integrity
Training
Shared Values
Strong Culture



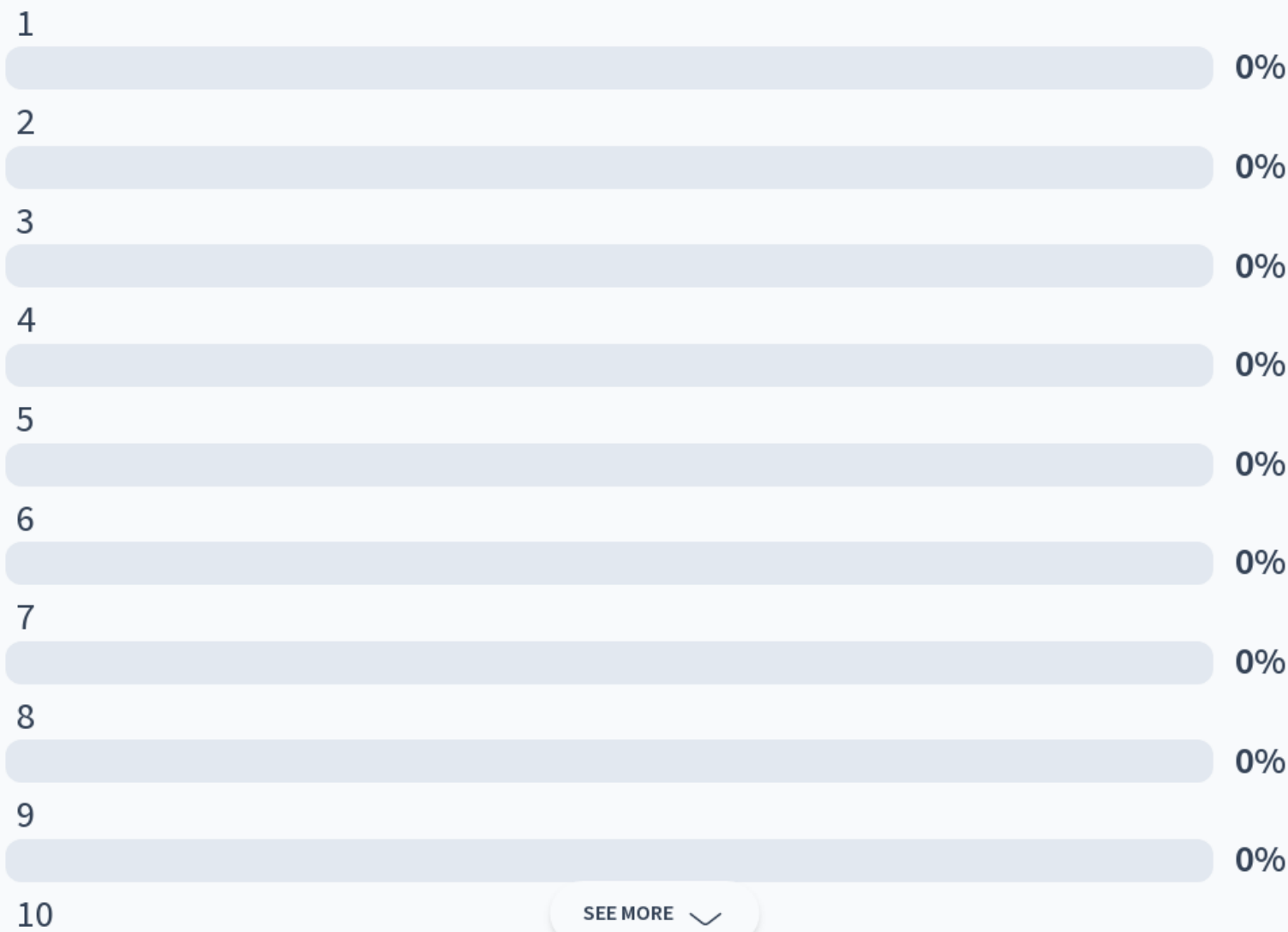
Hard Controls:

Policies
Procedures
Safeguarding of Assets
Test Internal Controls

Rate your Organization's Hard Controls



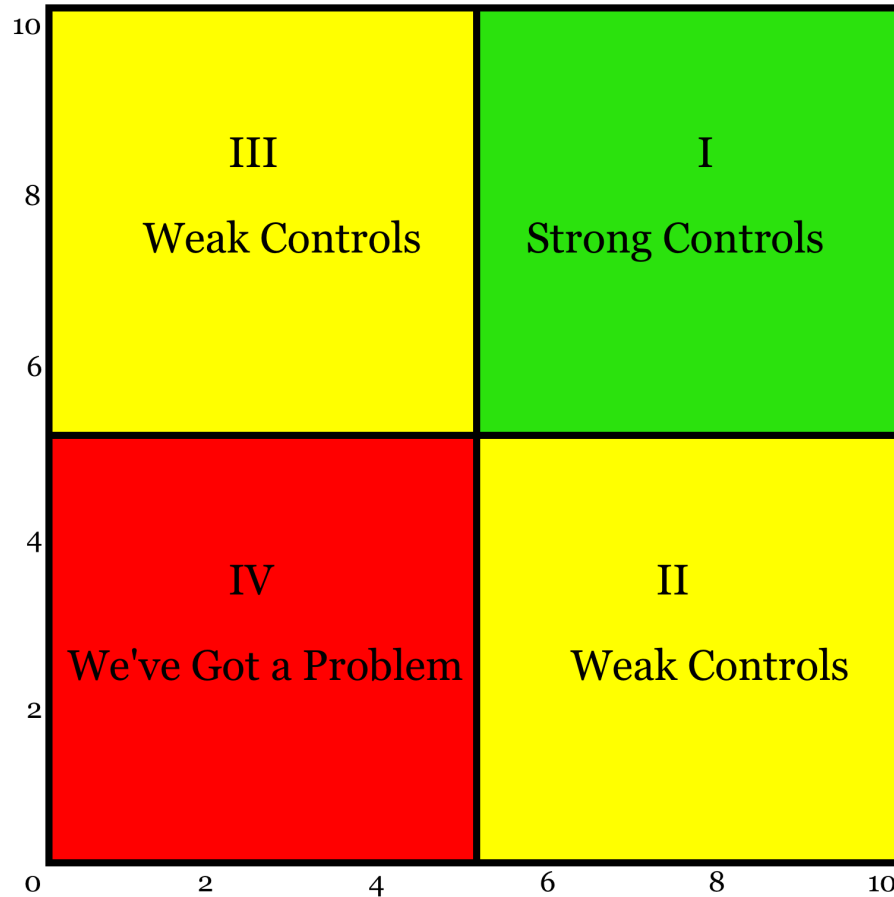
Rate your Organization's Soft Controls



Control Environment Assessment

Soft Controls:

Trust
Competency
Integrity
Training
Shared Values
Strong Culture



Hard Controls:

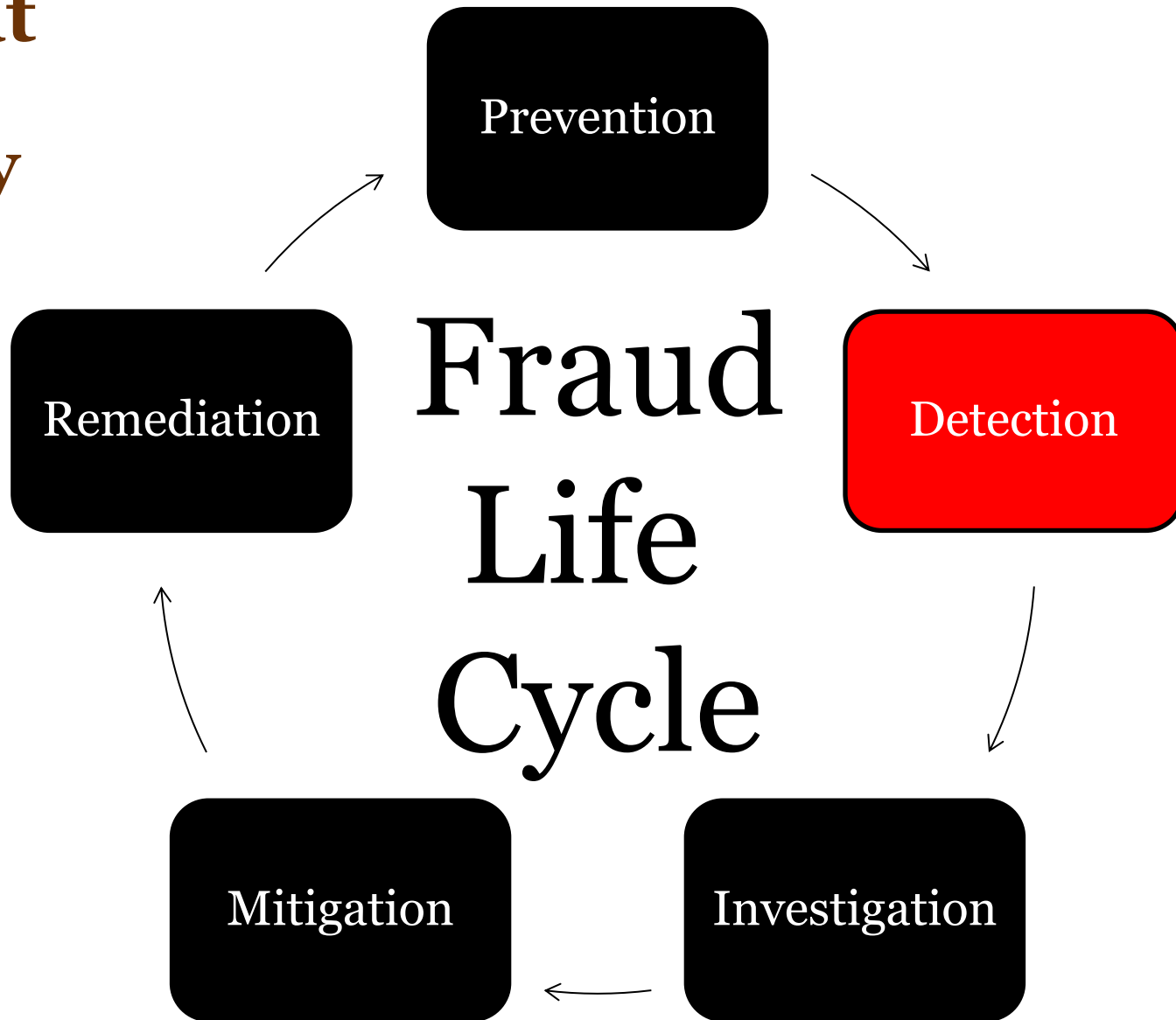
Policies
Procedures
Safeguarding Assets
Test Internal Controls

Prevention Frameworks

- ACFE Anti-Fraud Playbook
- COSO–Fraud Risk Management Guide (2023)
- Federal Sentencing Guidelines
 - (Business Compliance Program)
- IIA: Three Lines of Defense
- Managing the Business Risk of Fraud



What & Why



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Finding the Fraudster



Whistleblower Motivations

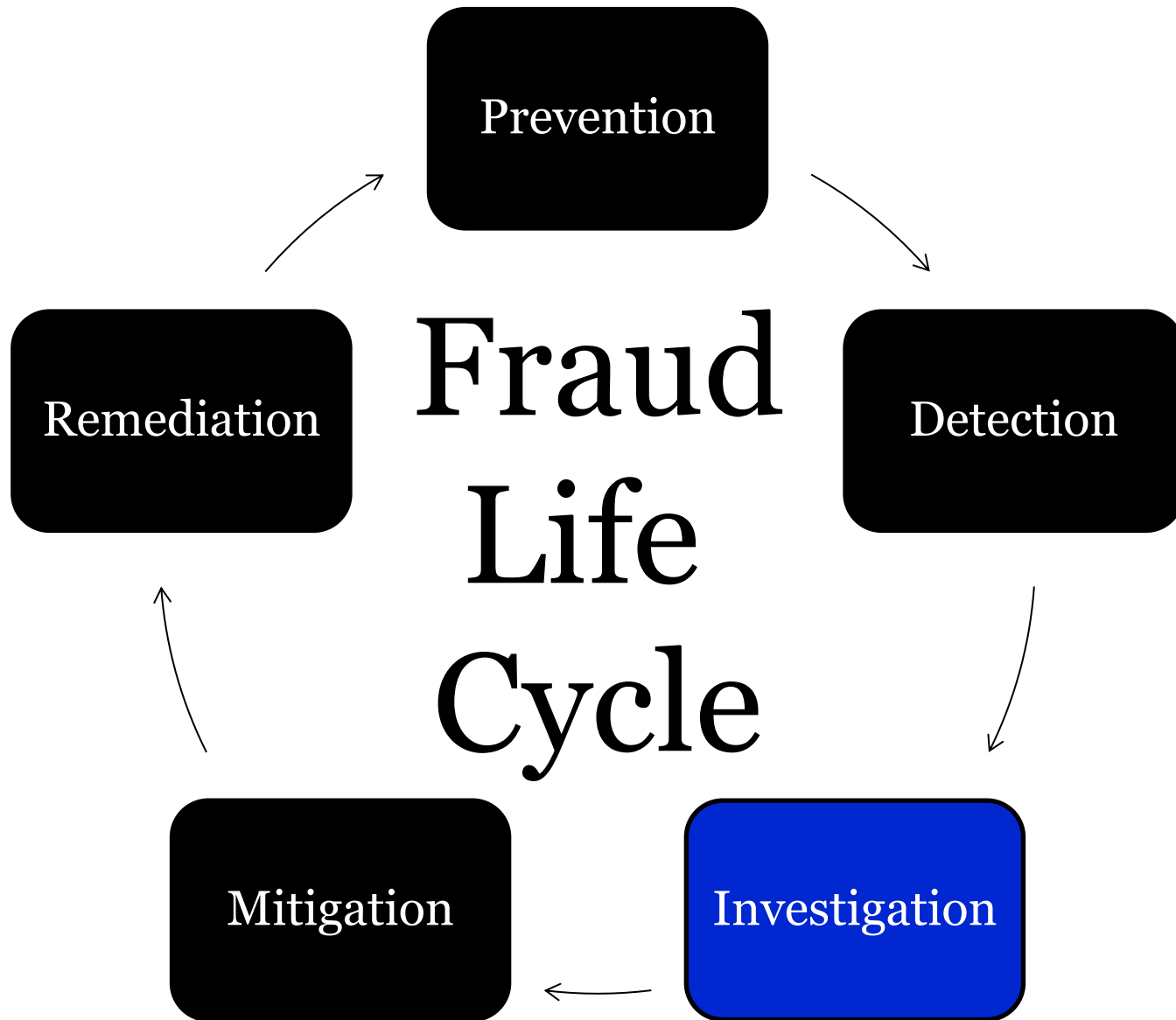


- Concerned Citizen
- Management Would Not Address Issue
- Monetary Award
- Revenge
- Romantic Falling Out
- Sense of empowerment

Detection

- Employee awareness
- Hot Line
- Whistleblower
- Data Analytics
- Escalation Protocol
- Continuous Monitoring
- Behavioral Forensics





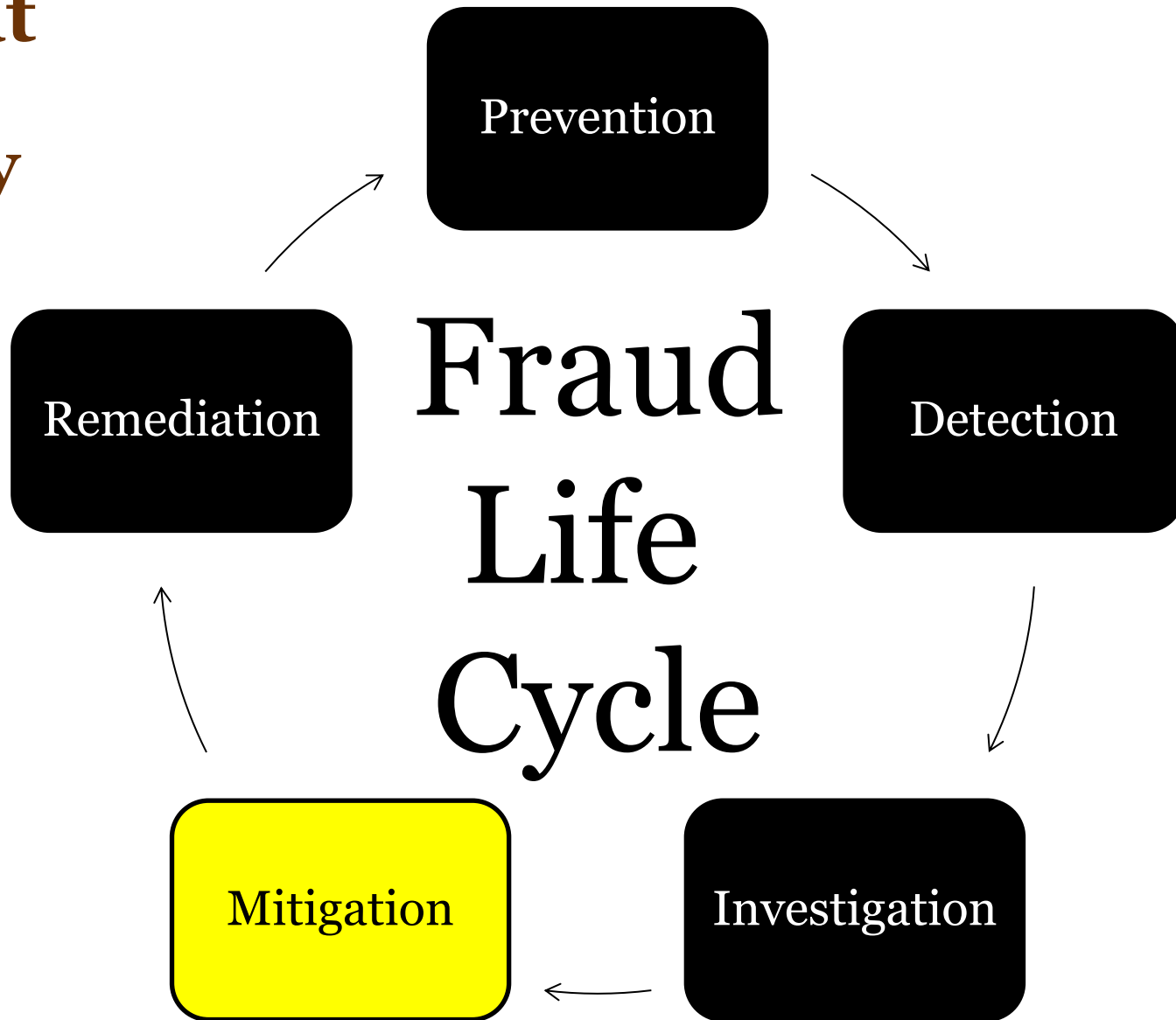
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Investigations

- Attorney led
- Overt v. Covert
- Evidence in Three Buckets
 - Interviews
 - Digital
 - Tangible (Documents)
- Start with the End in Mind



What & Why

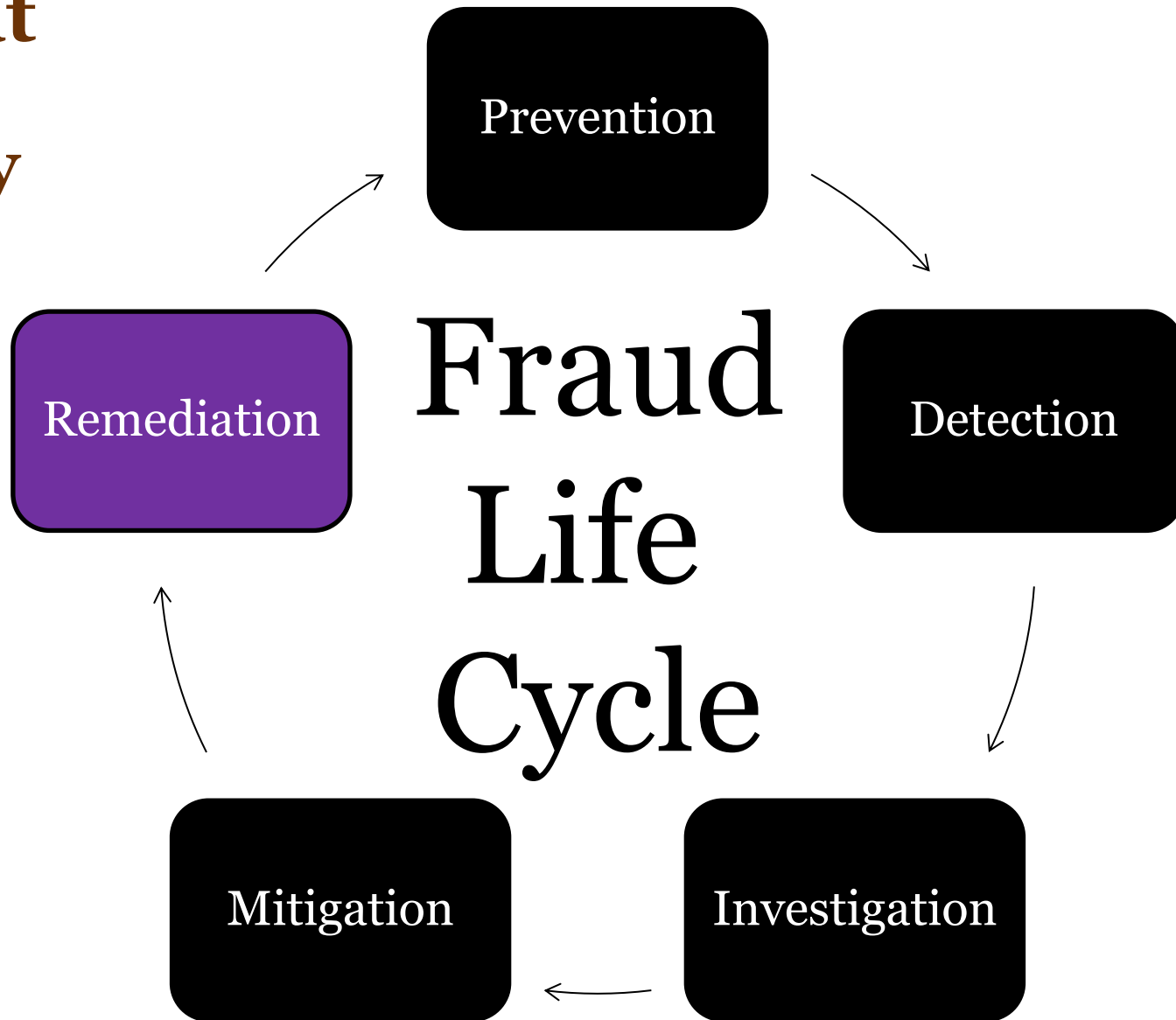


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Mitigation

- Stop the fraud
- Ensure never happens again
- Restore Trust To Stakeholders
- Develop Hard Control
- Assess Soft Controls
- Culture & Training

What & Why



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Remediation

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



Internal Investigations | Forensic Accounting | Fraud Mitigation

The Hartman Firm, LLC is a law firm and Certified Public Accountant (CPA) firm in Atlanta, Georgia serving individuals, businesses, government entities, and outside counsels. The founder is a retired FBI Agent.

What We Offer

Internal Investigations

Provide trusted information to decisionmakers

Forensic Accounting

Quantifying facts for a legal resolution.

Fraud Mitigation Consulting

Prevention, detection, and remediation strategies.

Due Diligence

Ensuring integrity of counterparties.

Whistleblower Representation

No one will listen? Let the Firm assess compensation remedies.

Why Choose Us

Integrity - Credibility - Independence

These are the most important criteria for any firm doing forensic work.

Fraud Life Cycle Approach

Prevention, Detection, Investigation, Mitigation & Remediation

Clients

Typical clients are seeking an attorney, forensic CPA, or a fraud investigator knowledgeable about the legal, accounting, and investigative aspects of fraud or forensic engagements. The Firm can be retained by an individual, company, governmental organization or legal counsel.

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Presentation Materials
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Get In Touch!

 (404) 369-0616

 vic@hartmanfirm.com

 3379 Peachtree Road, NE Suite 555
Atlanta, Georgia 30326

 Monday - Friday
8:00 am - 6:00 pm

[in](#) [t](#)

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Presentation Materials

Construction Financial Management Association PowerPoint

FBI BEC Public Service Announcement

Anti-Fraud Playbook

IIA Three Lines of Defense

COSO - Fraud Risk Management Guide (2023)

Managing the Business Risk of Fraud



Questions



Vic Hartman
J.D., CPA/CFF, CFE
The Hartman Firm, LLC
Twitter: @vichartman
vic@hartmanfirm.com
Mobile: (404) 574-0807

