Praise for *Faces of Fraud: Cases and Lessons from a Life Fighting Fraudsters*

“Martin has done it again. He has written another book with tons of great tips for anyone seeking to detect, investigate and prevent fraud or corruption. Martin has relied upon his exceptional 40-year career to write this interesting and informative compilation of lessons learned and best practices. The beauty of the book is that it provides one with the opportunity to experience some of what Martin has lived in fighting wrongdoing while working for the government and in the private sector. The take-away is practical guidance for dealing with possible fraud and corruption, no matter what the situation.”

—Karen A. Popp, Sidley Austin’s Global Co-Chair of the White Collar Group, and former New York federal prosecutor, Department of Justice official, and Associate White House Counsel to President Clinton

“A compelling look into the minds and methods of fraudsters and those who chase them. *Faces of Fraud* reaffirms the adage that fraud schemes are limited only by the imagination. It also demonstrates that fraud investigators have kept pace with their quarry, relentlessly pursuing fraudsters who have made their schemes opaque and complex. Mr. Biegelman’s advice on preventing fraud and conducting fraud investigations is worth the price of admission.”

—Jan Lawrence Handzlik, Partner and Chair, Anti-Corruption and FCPA Practice Group, Venable LLP

“Martin Biegelman is the real deal; he’s been there, he’s done that. Based largely on his experiences as a federal agent, *Faces of Fraud* provides rare insight into the operation of major fraud rings from the perspective of the one who broke them up. It’s a fascinating, invaluable guide for those who either want to investigate fraud or who want to avoid becoming a victim.”

—Doug Behm, Attorney and former federal prosecutor
“There is no one more qualified to write a book on the detection, investigation and the prosecution of fraud and fraudsters than Martin T. Biegelman. In his latest book, *Faces of Fraud*, Martin shares with the reader his many years of fraud-fighting experience and the investigative techniques he used to bring hundreds of fraudsters to justice. His chapter on the use and control of confidential informants is unparalleled anywhere. His latest book is sure to become the definitive work on Fraud Fighting!”

— John E. McDermott, U.S. Postal Inspector (retired), Corporate Compliance Investigator

“Because fraud has so many faces, those who fight it can never stand still. Knowledge is our greatest (and sometimes only) weapon. Regardless of whether you are a beginner or a seasoned anti-fraud professional, you can’t help but benefit from Martin’s candid analysis and discussion of the many cases he has investigated. I thoroughly enjoyed this this peek into his remarkable career and experiences.”

— John D. Gill, J.D., CFE, Vice President–Education, Association of Certified Fraud Examiners

“What a fascinating look into the mind of fraudsters! Martin has worked side by side with fraudsters for 40 years, the right side. His case studies are riveting. Anyone who intends to protect their fortune or help others protect their fortune will find *Faces of Fraud* worth a fortune.”

— Roy Snell, CEO, Society of Corporate Compliance and Ethics

“Regardless of your profession, if you are intrigued by fraud, how it reveals itself, how it is detected, investigated and prosecuted, you must read this book. Every cleverly titled chapter pulls the reader into a world of intrigue, mystery, discovery, excitement and sometimes serious danger. The reader feels he is in the midst of the case, at the side of the investigator, boots-on-the-ground, witnessing real-life events unfold, as if for the very first time. The book doesn’t stop there. It offers even more to its readers. It
provides guidance on how best to investigate the many complex varieties of fraud. It describes processes and procedures to follow and provides tips and recommendations from investigative lessons learned. Simply put, Faces of Fraud is a book that has it all.”

—Rebekah J. Poston, Partner, Squire Sanders LLP

“Faces of Fraud contains a line that reads, ‘Remember to always use your imagination in the detection, investigation, and prevention of fraud and other crimes.’ Clearer words were never spoken about fighting fraud. That they come from the pen of Martin Biegelman is no surprise. Few fraud investigators possess the depth and breadth of investigative experience and analytical prowess that he does. It is a gift to the entire fraud-fighting profession that he has seen fit to put his 40 years of practical wisdom between the covers of this new must-read.”

—Peter Goldmann, CFE, President, White-Collar Crime 101/FraudAware

“Mr. Biegelman’s conversational tone belies his deep and insightful understanding of fraud and its prevention, detection, and investigation. With this latest highly readable book, he has surely cemented his place as one of the world’s foremost authorities on the topic of economic crime. Utica College is proud of its relationship with Mr. Biegelman, and our faculty and students are grateful for his ongoing support, expertise, and guidance as chair of the Economic Crime Institute’s Board of Advisors.”

—Todd S. Hutton, President, Utica College, Utica, New York

“Marty’s latest book is a comprehensive guide on fraud detection, investigation and prevention with interesting fraud-fighting experiences designed to help readers spot, not only the red flags, but the earlier yellow flags of fraud.”

—George A. Stamboulidis, Esq., Managing Partner of the New York office and co-head of the White Collar & Corporate Investigations Team, BakerHostetler LLP
Faces of Fraud is an excellent primer on the history and evolution of fraud. Mr. Biegelman provides detailed and valuable insights from his long and successful career investigating a wide variety of fraud schemes. Mr. Biegelman also discusses numerous investigative techniques that aided him in conducting his many successful investigations. Faces of Fraud includes numerous well-told examples of investigations ranging from simple to complex and covering the gamut of fraud schemes including mail, wire and bank fraud, identity theft, coupon and rebate fraud, telemarketing boiler rooms, insurance, healthcare, and accounting fraud to name a few."

—Peter Sullivan, Director, Global Security, Monsanto Company

“In Faces of Fraud, Martin Biegelman shares the highly innovative and successful investigative techniques that he used during an incredible 40-year career investigating financial crimes. Anyone interested in the investigation and prevention of fraud will find Faces of Fraud an invaluable resource.”

—Patricia A. Pileggi, Partner, Schiff Hardin LLP
Faces of Fraud
Faces of Fraud
Cases and Lessons from a Life Fighting Fraudsters

MARTIN T. BIEGELMAN

John Wiley & Sons, Inc.
For Frank Citera, Joe Tomaino, and Bob Paschel. They were exceptional investigators and very special people who left us far too soon.
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I have lived my life fighting fraud and fraudsters. My 40-year career started as a fraud investigator in state and local law enforcement, and later moved to a role as a federal agent tackling more complex fraud and corruption cases. When I retired from law enforcement, I went to work in a forensic consulting practice assisting public and private companies with internal investigations and litigation issues, and designing fraud prevention programs. That was followed by the exceptional opportunity and experience to create and lead Microsoft Corporation’s Financial Integrity Unit. There I built a worldwide team of outstanding fraud and corruption fighters to protect Microsoft from financial and reputation risk. The Financial Integrity Unit that I founded continues to be a model for other corporate investigative programs.

After almost nine years at Microsoft, I returned to consulting in a global investigations and compliance practice at Navigant where I share my best practices and experiences with Fortune 500 companies and other business organizations. My client focus is on conducting internal investigations on behalf of corporate management and boards, Foreign Corrupt Practices Act and antibribery compliance, litigation consulting, due diligence, and corporate compliance design and implementation.

In the past 40 years, I have learned many lessons from fighting fraudsters and fraud around the world, including how to spot the unheeded warning signs and how to understand the criminal mindset. I have distilled these lessons into the resulting best practices in fraud detection, investigation, and prevention that are discussed in this book. There are many different faces of fraud and I have seen most, investigating literally thousands of cases over the years. This experience has allowed me to develop proven strategies for investigation and detection that are backed up with real stories
(though in some cases the names of people and businesses have been changed) throughout this book.

One thing is certain. Fraud is evil, with a life of its own that shows no sign of abating. I have seen that evil perpetrated in case after case. As I peeled away the onion of fraud in every investigation, I would find layer upon layer of financial and emotional consequences. I came to recognize this as the hallmark of fraud. Sadly, all that I have seen over the years is an increase in the occurrence of fraud and in the level of victimization. We as a society seem to be unable to learn from our past and continue to fall victim to a multitude of scams and schemes. If only we could see what fraud looks like to better defend against it when it stares us in the face. If only we could do a better job of catching fraudsters and preventing this evil. Thus, when I decided to write a book about my decades of conducting fraud investigations and my associated experiences with fraudsters, *Faces of Fraud: Cases and Lessons from a Life Fighting Fraudsters* was the logical title.

I have been blessed with an amazing career. Early on, a wise detective told me something I would never forget: that I had chosen the right field of employment and I was very lucky. He said that human greed, naiveté, and fraud would always exist, and as such, I would be guaranteed a full and long employment. He was right; fraud has been my life, figuratively speaking, and I have been able to turn my job into my lifelong hobby. Though some people might consider me an expert, I keep learning every day. I’ve had a lot of wins over the years and also some losses. I am honored to be able to share my fraud-fighting experiences, cases, best practices, and lessons with you.
I have had an amazing career, and what has made me successful throughout my career are the great people I have had the privilege of working with—and I would like to acknowledge some of them here.

From the New York State Department of Agriculture and Markets: Peter Calabrese, John Dyson, and Thomas Conway.

From the Brooklyn District Attorney’s Office: Doug Behm, Steve Taub, Richard DiBenedetto, Henry Randolph, Andrea Appelman, and Sarah Conley.


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Thank you as well to others I had the honor to work with including Tom Kiernan, Joe Jordan, Chuck Millar, Odell Guyton,

A special note of thanks to the Association of Certified Fraud Examiners and their exceptional people including Joe Wells, Jim Ratley, Jeanette LeVie, John Gill, Allan Bachman, John Warren, Kevin Tapauarskas, Dick Carozza, and all the other ACFE professionals.

With each book I write, the more I realize the arduous task it is to produce a manuscript that meets readers’ expectations. I could not accomplish that without the guidance of Tim Burgard, my executive editor at John Wiley & Sons. Tim supported me from the initial concept through the finished product. I also want to acknowledge Helen Cho, Stacey Rivera, Nikole Connors, and Kimberly Monroe-Hill at Wiley who have been invaluable in helping me navigate through issues large and small in the production process.

When I wanted someone to read my draft manuscript and give me honest feedback, I again turned to my dear friend, DeWayn Marzagalli. DeWayn, a former federal agent extraordinaire, provided the constructive and thoughtful comments I needed. Writing a book without DeWayn’s keen eye and recommendations would not seem right. In fact, this is the fifth book that he has helped me with. Thank you, DeWayn.

Although this work is solely mine and does not reflect the views or opinions of Navigant Consulting, I would like to thank my employer for supporting me in writing this book.

And last but certainly not least, to my wife, Lynn, and son, Daniel, who were indispensable to me, as they spent countless hours reviewing the manuscript and providing insightful feedback. Lynn’s constant encouragement, wisdom, and attention to detail were essential. Her patience, as I again spent all my free time engrossed in completing this book, is exceptional and much appreciated.
What does a fraudster look like? Can you tell the evil from his or her face? Are there warning signs one can see so as to be on alert? I have been asked these questions over the years. The fact is there is no easy way to look at a person and know for sure their criminal intent. The faces of fraud are everywhere. Fraudsters may be male or female, young or old, short or tall. Fraudsters are your brothers and sisters, friends and neighbors, people from all walks of life and often those you least expect to scheme and scam. If you had come across Bernard Madoff walking the streets of Manhattan prior to December 2008 and his arrest for the mother of all Ponzi schemes, you would have thought you just saw the face of a 70-year-old grandfather out for a leisurely stroll. Certainly not the monster who stole billions of dollars from people who trusted him and in the process destroyed the lives of so many.

Yet there are faces of fraud. They are not in facial characteristics or expressions. They are not in the color of one’s eyes, hair, or skin. Fraud is gender and race neutral. The aura of fraud comes not from how a person looks or where they come from but from their criminal intent and the resulting self-serving actions, ruthlessness, and arrogance. The faces of fraud are personified in the mindset of the swindler. The faces of fraud are felt in the financial, reputational, and emotional impact of their deceptive actions. The faces of fraud are burned into the memories of the victims. The faces of fraud run the gamut from simple schemes that hit and run like advance fee loan...
scams to long-running and complex financial accounting frauds such as the ones that occurred at Enron, HealthSouth, and WorldCom.

Some scammers are better than other schemers in playing out their frauds. It may be their years of deception or just their personal level of evil. Either way, their success means your loss. Fraudsters have no souls. How else can you explain why they will use every possible lie, deception, and con to defraud you out of your valuables and life savings? Fraudsters are silver-tongued devils who will say and do anything with such convincing words and actions that victims easily fall prey. It is no coincidence that Satan’s appellation is the “Prince of Lies.”

**A SILVER-TONGUED DEVIL**

In 1986, I encountered a young man who was working in a telephone and mail order sales operation that sold rare coins to elderly investors. This particular salesman, although in his early twenties and fairly new at the game, was already an accomplished fraudster. One of his most effective pitches was aimed at elderly women who he would call to sell them grossly overpriced and misrepresented rare coins. When he got such a potential victim on the line, he would tell her that her voice reminded him of his late grandmother. He would say that it was his grandmother who raised him when his own mother abandoned him at birth. He would explain that it was his grandmother who loved him, and sadly died in the last year. The fraudster would tell the potential victim that she reminded him of his “grammy,” and he deeply missed her. He would ask the woman to just talk a bit as her voice eased his pain and brought back loving memories.

What person wouldn’t be moved by such words from a supposedly loving grandson who adored his late grandmother? Many an elderly woman who this con man spoke to believed those words. Except the words were false, all lies, intended to bring sympathy and trust while making the person vulnerable for the close. The scammer would then move in for the kill. He would say that he wanted to do something special for the woman. He would offer her very valuable coins for a fraction of the selling price, but she had to promise not to tell anyone because his boss would fire him for selling the coins so
cheaply. It was his way to thank the woman for the good memories she helped him remember.

He would further tell the mark that she should put the coins in a safe deposit box for many years and they would grow in value many times over their purchase price. Then years from now she could give them to her grandchildren as gifts for a college education or keep them to provide for her financial independence. He wanted the victim to put the coins away where no one would see them. If an experienced numismatist who grades coins for a living looked at them, that person would know that the coins were inferior, low grade, and worth a fraction of the price the victim paid. This fraudster was very good at scamming people and would brag about how easy it was to victimize the elderly using his phony deceased grandmother story. His evil eventually caught up with him; I arrested him, and he went to prison on a fraud conviction. He had no remorse until the handcuffs were on his wrists.

SELL THE SIZZLE, NOT THE STEAK

Few frauds personify the faces of fraud premise better than boiler room scams. Boiler rooms are high-pressure telephone sales operations that target victims using misrepresentations and lies to sell everything from penny stocks to vacation cruises, rare coins to vitamins, and cleaning supplies to Who's Who memberships. In theory, anything can be sold in a fraudulent telemarketing operation. All that is needed is a good spiel or pitch and a persuasive fraudster delivering it to an unsuspecting victim. The salespeople use aliases or phone names so they have anonymity. Boiler rooms are usually located far from the victim and close down relatively soon after opening, all to lessen the chances of the perpetrators being arrested. All these factors give the operators and salespeople the mistaken belief that they are immune from prosecution.

Present-day boiler room operations are typically located in an office or suite of offices with banks of telephones staffed by telephone salespeople. The common denominators in all boiler rooms are the telephones, misrepresentations, and high-pressure sales pitches. Depending on the degree of evil, boiler rooms may actually provide
the victim with the ordered merchandise at grossly inflated prices or in some cases nothing at all. Boiler rooms exist with the proposition of “sell the sizzle, not the steak.” Victims initially fall for the perception of something good and valuable but are eventually left with the realization of deception and loss.

Telemarketing fraud is nothing new. It has been with us since the 1920s when telephone con men contacted investors and sold them worthless stocks and bonds. It was called boiler room fraud, which is the dark and illegal side of telemarketing. The only thing that has changed over the years is that telemarketing fraud has now grown to victimize even more people. We are all affected, but especially the elderly who are particularly targeted by fraudsters. We all want to believe when that telephone rings, we are that special someone who has just won that prize, that trip to the Bahamas, or that investment opportunity that will make us rich beyond our wildest dreams. Unfortunately, all these scam artists do is sell the sizzle and not the steak.

Boiler room operators of the past would often set up shop in the basements of office buildings because the rents were cheap and it was a good place to hide from postal inspectors and other law enforcement officers. These operations would sometimes be in or near the basement boiler rooms, thus the term. But there is another meaning. What is a boiler? It is a device under intense pressure. The same is true in a boiler room. The salespeople are under intense pressure to make sales, and they apply that pressure to their victims. Since the salespeople usually get paid only on a commission basis, they will say and do anything to make a sale. The more they lie and deceive, the more people they can defraud, and the more money they can make. The red flags of telemarketing fraud as well as other investment scams include these statements made by fraudsters to unsuspecting victims:

- You’ve been specially selected to receive this offer.
- This investment is low risk and provides a higher return than you can get anywhere else.
- We guarantee the results.
- You’ll be rich beyond your wildest dreams.
- It’s so safe that I put my mother into this same investment.
The Fraudster Mindset

- You’ll get a wonderful free bonus if you buy our product.
- You’ve won a valuable free gift.
- You have to make up your mind right away as this offer expires today.
- We’re members of the Better Business Bureau and authorized by Visa and MasterCard.

When you boil fraud down to its basics, it is all about lying, cheating, and stealing. It’s selling the sizzle and not the steak. Let me explain further. Imagine yourself at a summer barbecue on a warm and sunny day. It’s time to eat, and the host lights the grill to cook the steaks. You are very hungry and you watch the grill heat up. Your host puts on the thick, marbled steaks, and you hear the sizzle. The meat cooks and fat drips, causing the flames to flare. You smell the meat cooking. The juices pool up on the surface of the steaks. Your mouth waters and your taste buds erupt, and you want that steak more than anything. The steak could be tough as leather. It could be the worst piece of meat, but your mind tells you otherwise. You are falling for the perception of a good steak, not the reality of what’s actually on the grill. The same thing happens in telemarketing fraud. Scammers sell you the perception, not the reality.

DR. DONALD CRESSEY AND THE FRAUD TRIANGLE

Although it is common knowledge that people and corporations commit fraud, it is not fully understood why they do it. Understanding the motive behind fraud is important in preventing it. Dr. Donald Cressey, a famed teacher and pioneer in fraud research and an important fraud expert, developed the Fraud Triangle Theory (Exhibit 1.1) to explain why people commit fraud. Dr. Cressey came to the conclusion that the propensity for fraud occurred when three critical elements came together: motive, opportunity, and rationalization. Each of these three elements is necessary and interrelated in order for a person to actually commit a fraud. The absence of any one of them would not allow a person to commit a fraud. Every corporate executive needs to understand the Fraud Triangle and why employees commit various kinds of fraud. In fact, everyone needs to understand


EXHIBIT 1.1 Fraud Triangle
Source: Reprinted with permission from the Association of Certified Fraud Examiners, Austin, Texas © 2012.

the warnings of the Fraud Triangle to protect against the faces of fraud.

Financial Pressure and Other Motives

Financial pressure is often the motive for why people commit fraud. It is the element that causes a person to act or react and often implies an emotion or desire. It is the driving force behind a person changing from a law-abiding citizen to one who commits a felony. There are many motivations to commit fraud; most of them are greed related. They include living beyond one’s means, an immediate financial need, debts, poor credit, a drug or gambling addiction, and family pressure, to name a few.

In the movie *Wall Street*, the character Gordon Gekko was fond of saying “Greed is good. Greed is right. Greed works.” Greed epitomized Wall Street in the 1980s. Just as greed led many down the path to insider trading and other financial crimes, it is a motivating force in all kinds of frauds, especially the corporate frauds seen over the last few years. The recent housing bubble and the associated subprime mortgage meltdown, mortgage and securitization frauds,
and the resulting devastating impact on the economy, prove once again that greed and fraud are ever-present.

Although greed is the usual motive, sometimes revenge and ego play a role. An employee may feel anger and hostility against a company for some perceived wrong and may try to get back at the company by defrauding it. Although the argument goes that this is revenge, when this behavior results in money in the pocket, it boils down to greed, pure and simple. Sometimes the motive is a desire to beat the system. Fraudsters often think they are smarter than everyone else, and they believe that no one can stop them. Pressure to perform is often a motive for fraud. Sometimes the perpetrator commits fraud to help improve the bottom-line financial results. Emotional instability is also a motivating factor, but this is seen far less than the other motives for fraud.

An excellent example of greed as a motive is a case I investigated involving a multimillionaire industrialist from New York. He owned businesses all over the country. He lived in a mansion in one of Long Island's most exclusive communities. He gave large donations and endowments to universities, museums, hospitals, and other charitable organizations. Most amazing of all, he served several presidents in a variety of diplomatic and economic assignments in his lifetime. He was well-respected, and reference materials include pages of his accolades and achievements. Compared with all the good this man did throughout his lifetime, the one stain on his career is his conviction for fraud. Unfortunately, he conspired with others to submit a fraudulent insurance claim on one of his many businesses.

Why would this otherwise good man do something that was so contrary to the rest of his life? What was his motive? The answer is simply greed. His path to a courtroom and sentencing before a federal judge started with an insurance claim for damage at one of his factories. The problem was that the type of damage that occurred was not covered by his policy. The damage was in the hundreds of thousands of dollars. Rather than just let it go and view it as a business loss, this industrialist decided to take the advice of his public adjuster and falsify the claim by changing the cause of damage to one that was covered by the policy. Payoffs were made to insurance adjusters to go along with the fraudulent claim. The kickbacks that were paid took almost half of the proceeds from the insurance claim.
This insurance fraud might have gone undiscovered if not for the fact that greed overtook the insurance adjusters involved. They continued to engage in staged and inflated insurance claims with dozens of other insureds and insurance adjusters in settling bogus insurance claims. When I eventually discovered their crimes and confronted them, the adjusters admitted their long involvement in insurance fraud, the many phony claims they had submitted to numerous insurance companies, and the many co-conspirators with whom they had worked. Again proving that there is no honor among thieves, they gave up the name of the industrialist. After a short investigation, the industrialist admitted his involvement and pleaded guilty to charges of mail fraud.

**Opportunity**

Opportunity is the favorable circumstance that allows a fraud to occur. The degree of opportunity that a person has to commit fraud is usually determined by his or her position of authority in their company and access to assets and records. Poor internal controls contribute to opportunity and fraud. An employee who can both open a new vendor account and also pay that vendor provides an example of weak internal controls and a good opportunity for fraud. People who can approve their own expense reports for payment are also provided opportunity for fraud and abuse. Blank check stock that is not properly inventoried and locked is another example of opportunity.

Strong separation of duties, robust internal controls, and constant management oversight reduce the opportunity for fraudsters to commit and succeed at fraud. Of the three Fraud Triangle elements, opportunity is the one area in which fraud prevention can excel. Removing or lessening the opportunity to commit fraud and abuse is important in any fraud prevention program but is absolutely critical for a corporate fraud prevention program.

Scammers commit the frauds they do because they have the opportunity. A mailroom employee may not be able to conspire with a vendor to create a contract that provides no service but yields a kickback to the employee. Yet, a mail clerk could steal incoming mail
containing highly confidential proprietary information and sell it to a competitor in a foreign country. It all depends on the opportunity available to potential fraudsters and how that opportunity is limited.

**Rationalization**

The Fraud Triangle’s third element is rationalization. Rationalization is how the fraudster justifies inappropriate actions. It is “the provision of reasons to explain to oneself or others behavior for which one’s real motives are different and unknown or unconscious.” When the elements of need and opportunity come together, the fraudster is convinced that what occurred is not bad or wrong.

Fraudsters often think of themselves as honest. Rather than considering themselves as criminals who just defrauded their company, they make themselves into victims. They may say: *I was only borrowing the money, I’ll pay it back someday; This is not much money, the company is rich and won’t really miss it; Everybody does it; They owe it to me; I’ll stop once I get over this financial hump; It’s for a good purpose; The company mistreats me.* Rationalization is another way of saying the end justifies the means.

In my career in law enforcement, I arrested hundreds of fraudsters. None of these criminals ever expected to get caught. They all thought that they would get away with their crimes. They rationalized what they did and came to believe they were invulnerable. If they didn’t rationalize their actions, their consciences would take over.

**FRAUD DIAMOND**

As further research was conducted into fraud and the fraudster’s motivation, a variation of the Fraud Triangle was advanced. The Fraud Diamond adds the fourth element of *capability* to the existing elements of motive, opportunity, and rationalization. A person may be in a job function where he or she can commit fraud but their capability to actually carry out the fraud may be limited. Capability includes the fraudster’s personality and traits including knowledge, creativity, and ego that differentiate from opportunity.
While opportunity refers to the person’s role and access to commit fraud, the fourth element takes this one step further. The fraudster “must be intelligent enough to understand and exploit internal control weaknesses and to use position, function, or authorized access to the greatest advantage.”4 Another aspect of capability is self-confidence and being able to handle the stress that occurs when perpetrating fraud.5

**FRAUD THEORIES**

In addition to the traditional theories of fraud just described, I have designed some theories of my own. Over my many years as a fraud investigator, I have seen more than my share of schemes, scams, cons, and frauds. Some were simple, such as credit card fraud and loan scams. Others were complex financial crimes such as insider trading, securities fraud, and RICO (Racketeer Influenced and Corrupt Organizations) cases. Some were so well thought out and successful that they were repeated time after time. Although some of these new theories may seem light-hearted and even whimsical at first, they speak volumes about how and why fraud is perpetrated and is all too often successful.

**Tip of the Iceberg Theory**

When first discovered, very few frauds yield their true extent, along with the actual amount of the loss. Often the fraud first seen is just a small part of the actual deceit, like most of an iceberg is hidden below the surface. As an investigator conducts the investigation, interviews people, reviews supporting documentation, and takes other related steps in the process, a much larger fraud is usually revealed. Corporate fraud is no different.

An excellent example of the Tip of the Iceberg Theory of Fraud is an insurance fraud industry case I investigated in the 1990s in New York, which is discussed later in the book. The case started with an anonymous tip to an insurance company that a homeowner’s
property claims were fraudulently inflated. One of the first claims I investigated was for $8,000, a rather small amount in terms of insurance fraud that would be authorized for federal prosecution. I believed that multiple fraudulent claims were involved and kept digging. My hard work paid off. By the end of the case several years later, more than 250 defendants had been arrested and convicted, and more than $500 million in staged and inflated commercial and homeowner property claims were uncovered.

**Potato Chip Theory**

Committing fraud and getting away with it can become addictive. Once one succeeds at an embezzlement scheme or payment of a bribe to a foreign government official to secure a contract and gets away with it, it gets harder and harder to stop that activity. This may be characterized as the Potato Chip Theory of Fraud. Just as a person is often unable to eat only one potato chip, once employees start committing fraud, they often cannot stop. Assuming the person does not get caught, he or she will commit fraud after fraud, even branching out to new frauds to obtain more money and other things of value.

An excellent example is a longtime employee of a corporation who was investigated for allegedly receiving kickbacks from a vendor. Applying the Potato Chip Theory of Fraud, other avenues of possible fraud were investigated. Knowing that expense reporting fraud is very common, a review of this employee’s travel and entertainment reports found personal expenses fraudulently claimed as business expenses. Thus, two different frauds against the company were discovered.

Greed and the successful perpetration of fraud become addictive, yet if fraudulent behavior continues, the perpetrator will eventually be found out. Criminals make mistakes no matter how smart they think they are. They get bolder and bolder each time they are not discovered. Experience has taught us that they eventually make fatal mistakes leading to detection. However, employees involved in fraud can do great damage until they are caught. The longer a fraud continues, no matter the employee level, the greater the potential
Living beyond means
Financial difficulties
Unusually close association with vendor and/or customer
Control issues, unwillingness to share duties
Divorce/family problems
Wheeler-dealer attitude
Irritability, suspiciousness, or defensiveness
Addiction problems
Past employment-related problems
Complaints about inadequate pay
Refusal to take vacations
Excessive pressure from within organization
Past legal problems
Complaints about lack of authority
Excessive family and/or peer pressure for success
Instability in life circumstances

EXHIBIT 1.2  Behavioral Red Flags of Fraudsters
Source: Association of Certified Fraud Examiners, 2012 Report to the Nations on Occupational Fraud and Abuse (Austin, TX: ACFE, 2012), 57.

financial and reputational damage. Exhibit 1.2 is a list of many of the behavioral red flags of fraudsters.

Rotten Apple Theory

It has often been said that one rotten apple can spoil an entire barrel. This can be applied to unchecked fraud in an organization or group. True leaders can inspire their employees to reach new heights of personal growth and career development. They can be role models who help create a new generation of corporate leaders. Employees want to emulate the leaders they see at their companies. Executives and managers who lead by example in compliance and integrity lessen the risk of fraud by their employees.

Unfortunately, the opposite also applies. Poor leaders who lack character and integrity, and who turn to fraud and abuse, can damage the people they lead. In a twist on imitation being the sincerest form
of flattery, there are examples of employees who turn to fraud because their managers were doing it and getting away with it. This is also called the Culture of Noncompliance Theory because when there is no culture of compliance, a breakdown of rules, policies, and accountability occurs.

A manager committed thousands of dollars of fraud by charging personal expenses on his corporate credit card. He did this on a continuing basis, and his subordinate saw that he did it. The employee copied the fraudulent behavior of his boss. When discovered, the subordinate unsuccessfully claimed that he was just doing what his superior did and should not be fired. This strategy did not work, and both were fired.

Another variation of the Rotten Apple Theory of Fraud is seen when a manager fails to provide adequate supervision of a team, leaving the team members with no direction. When oversight is lacking, successful fraud is easier to commit. Expense reporting fraud is much more common in groups in which it is known that managers do not thoroughly review the submitted payment requests. Although these kinds of managers do not personally commit the fraud, they promote it by not being alert and fully engaged. “Trust but verify” should be an ongoing policy.

**Low-Hanging Fruit Theory**

Although priority attention should be given to high-risk fraud such as financial misstatement and accounting issues, one must not forget about the lower risk but high occurrence frauds such as procurement frauds. Procurement frauds include invoicing for fictitious goods or services when working with vendors, contractors, and other third parties. It is often thought that fraudsters are cunning, imaginative, and brilliant in devising and executing their many schemes, but this presumption is often a misconception. Investigators, at times, give these violators too much credit for thoroughly thinking through their fraudulent activity and subsequent actions.

The reason that so much fraud is eventually discovered is simply that most fraudsters make mistakes that lead to their discovery. If the “low-hanging frauds” are not given appropriate attention, the
fraudster employees will continue their crimes until discovered. This could be months or years, and by that time, more damage will have been done. Executives should ensure that their fraud investigation units do not overlook these low-hanging frauds, as they will solve several problems.

First, they are usually simple frauds that do not take a significant amount of investigative time. Second, by stopping this fraudulent activity, there is an immediate benefit by removing a bad employee while sending a strong message about the company’s commitment to fraud prevention. Third, the fraudster is removed before he or she is able to commit much more complex and serious frauds.

Addition by Subtraction Theory

One of the best ways to reduce fraud is by removing the source of the problem. When a company terminates an employee who has committed fraud, a risk is removed and that improves the company. This theory refers to the benefits that an organization receives when it takes a proactive approach to fraud detection and investigation. As simple as that may sound in theory, it is often hard to do in practice. It requires a business to take a zero tolerance and hard-core approach to fraudulent behavior by its employees, partners, and vendors. In a case involving embezzlement by a relatively low-level employee, the evidence was overwhelming that the fraud did indeed occur. In addition, the employee admitted his involvement when confronted with the evidence found by investigators.

When the manager was provided with the evidence, he commented that he was sorry he had to terminate the employee because that worker had the potential to be a high-level executive one day. What the manager failed to realize was the Addition by Subtraction Theory of Fraud. The company is best served when a dishonest employee is removed before he or she moves up the corporate ladder where far more damage can be done. If a business is going to have a zero tolerance for fraud, it must apply to all employees. As soon as a high-level executive who commits any kind of fraud is not held accountable, the entire program has lost credibility.
If fraud detections, investigations and prosecutions are as easy as it is portrayed in the book (again, the author rarely fails to get to the bottom of the crime), why aren't the courts clogged with cases? Why aren't prisons filled with con men? And why do we keep seeing and hearing about new Ponzi schemes and other assorted frauds daily, if not hourly? The author seems to avoid this line of reasoning, in favor of a "Look at what I did" narrative. Frankly, a technical manual concerning fraud investigation or money laundering would have been more effective (although likely These case studies cover a sample of scenarios of fraud committed by employees or volunteers in the charity sector. Published 26 April 2018. From: The Charity Commission. Insider fraud is committed by someone involved with the charity, whether a trustee, an employee or volunteer. The fraudster was responsible for paying charity bills but was not an authorised signatory on the charity's bank account. The fraudster was able to access one of the senior management team's bank account login details to set up fake payees in the name of genuine third parties. The funds were then transferred to the fraudster's own bank account. Bills were then falsified and the fraudster used the bank login details to authorise the false bills.