

Interviewing Essentials and the Mindset of a Fraudster

*Understanding the Behaviors and
Motivations to Commit Fraud*

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Statistics on Fraud

The Profile of the Typical Fraudster

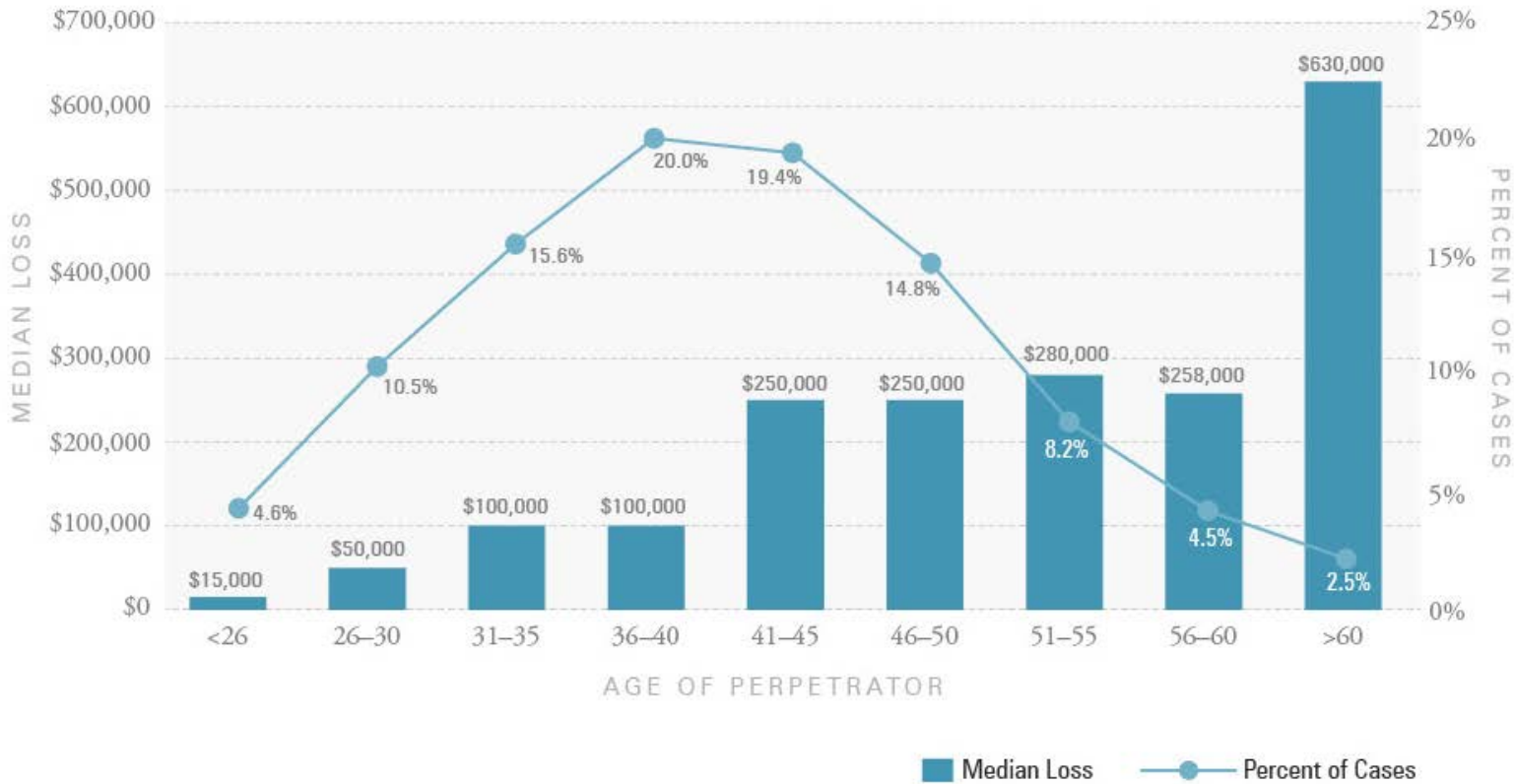
- *Report to the Nations:*
 - Male
 - Employee or management-level staff member
 - Works in accounting, primary operations, or sales functions
 - 36–45 years old
 - Has a university degree
 - Worked for the victim organization for 1–5 years

The Profile of the Typical Fraudster

- *Global Profiles of the Fraudster:*
 - Male
 - 36–55 years old
 - Committed fraud against his own employer
 - Worked in an operations, finance, or general management role
 - Held an executive position
 - Employed by the company for more than six years
 - Worked in collusion with another perpetrator

Perpetrator's Age

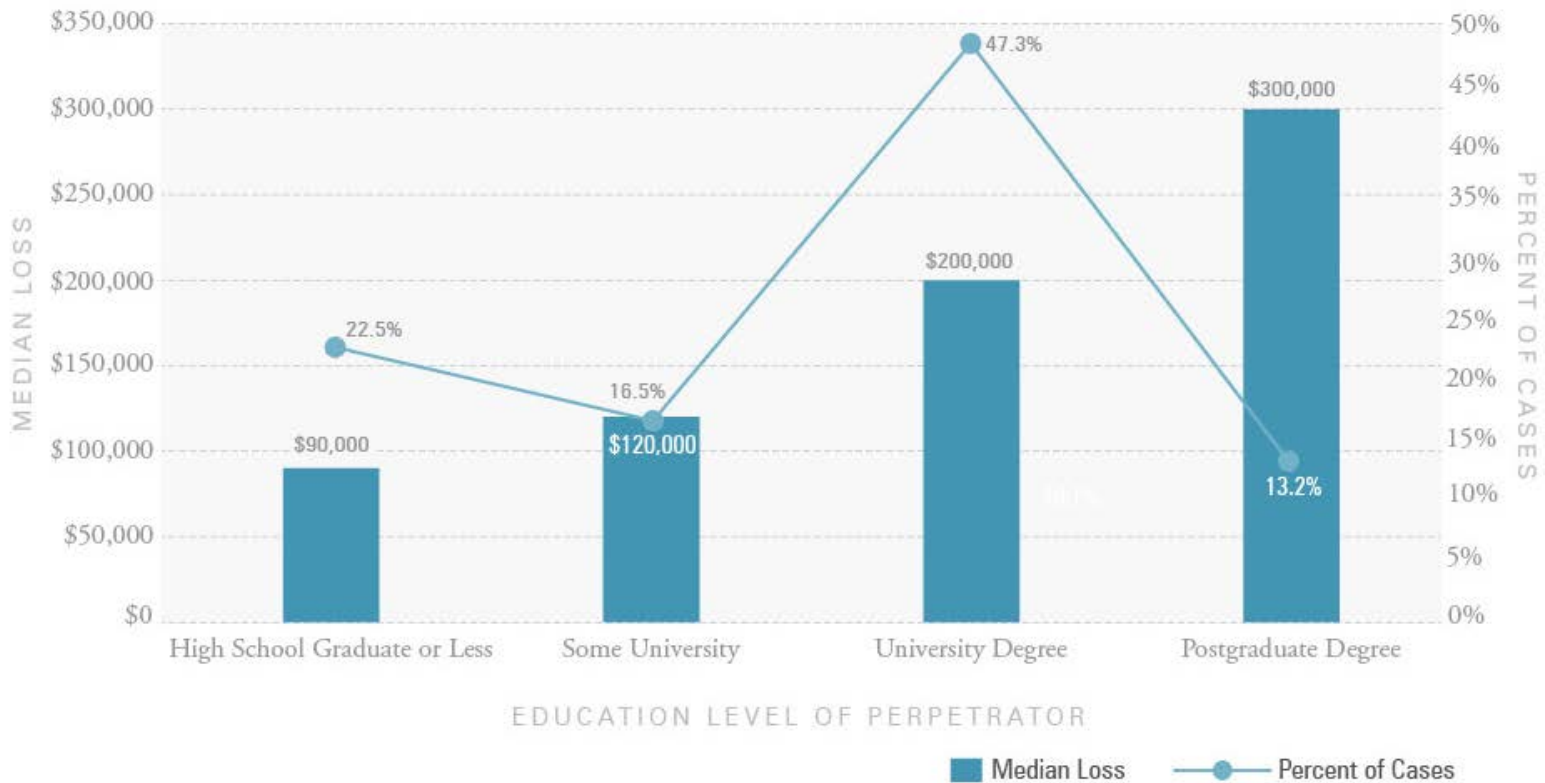
Figure 85: Age of Perpetrator—Frequency and Median Loss



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Perpetrator's Education Level

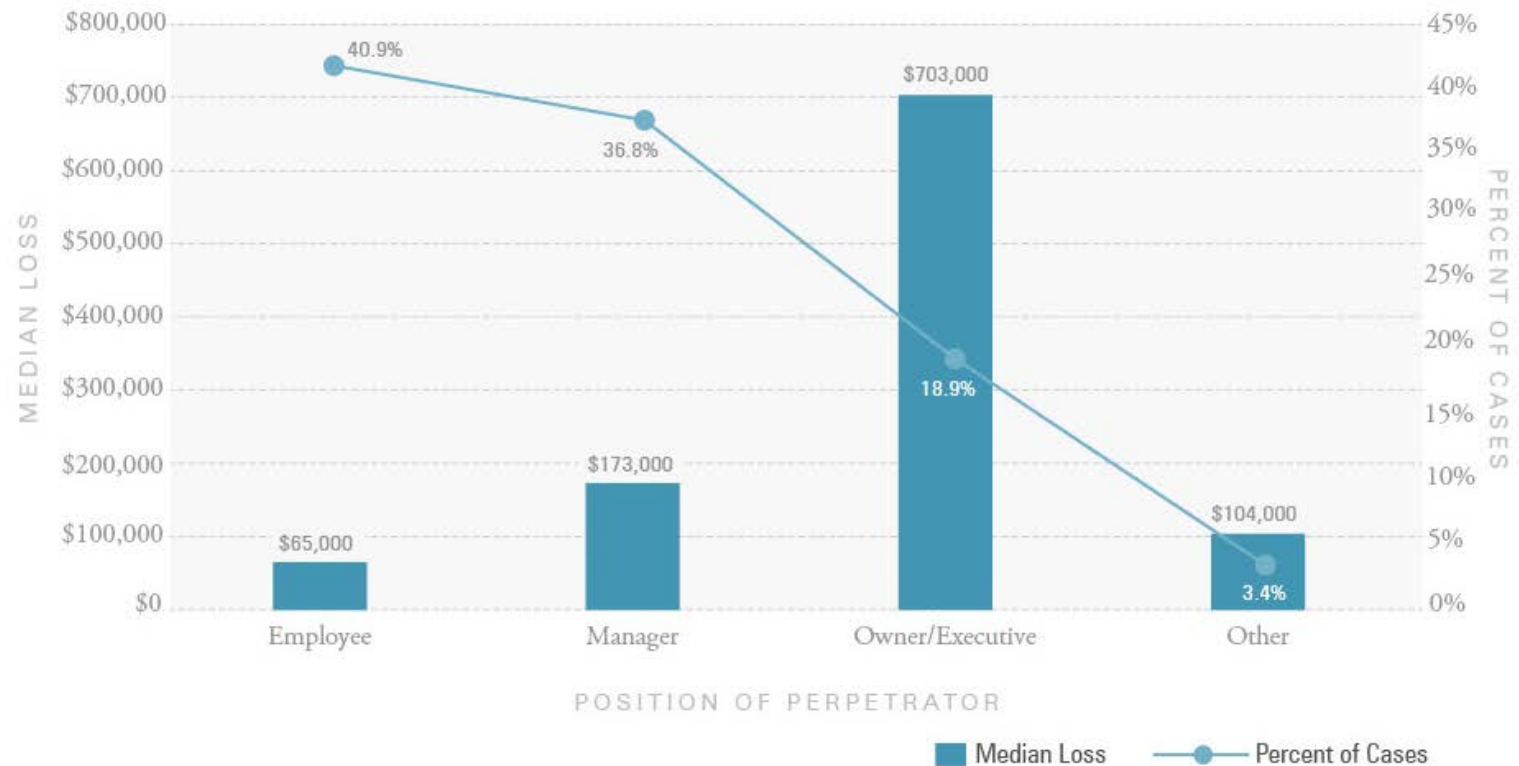
Figure 86: Education Level of Perpetrator—Frequency and Median Loss



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Perpetrator's Position

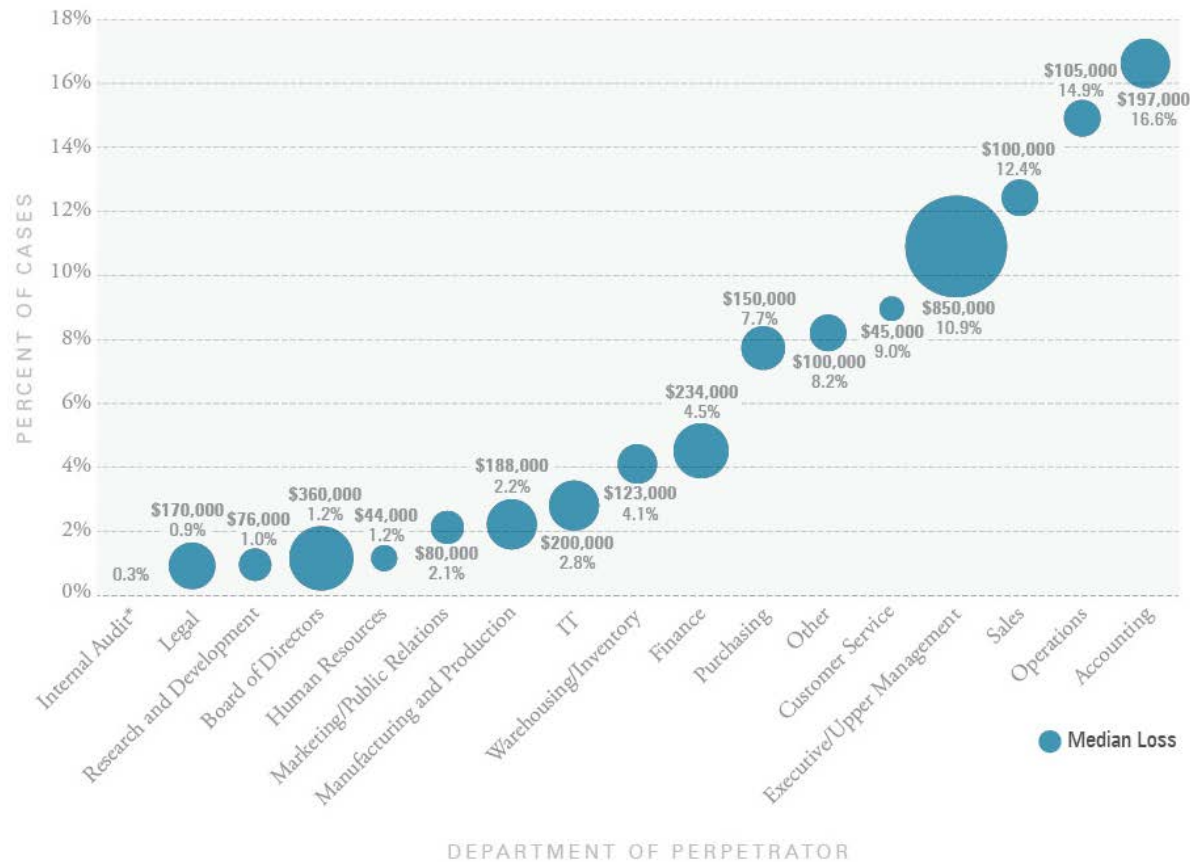
Figure 65: Position of Perpetrator—Frequency and Median Loss



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Perpetrator's Department

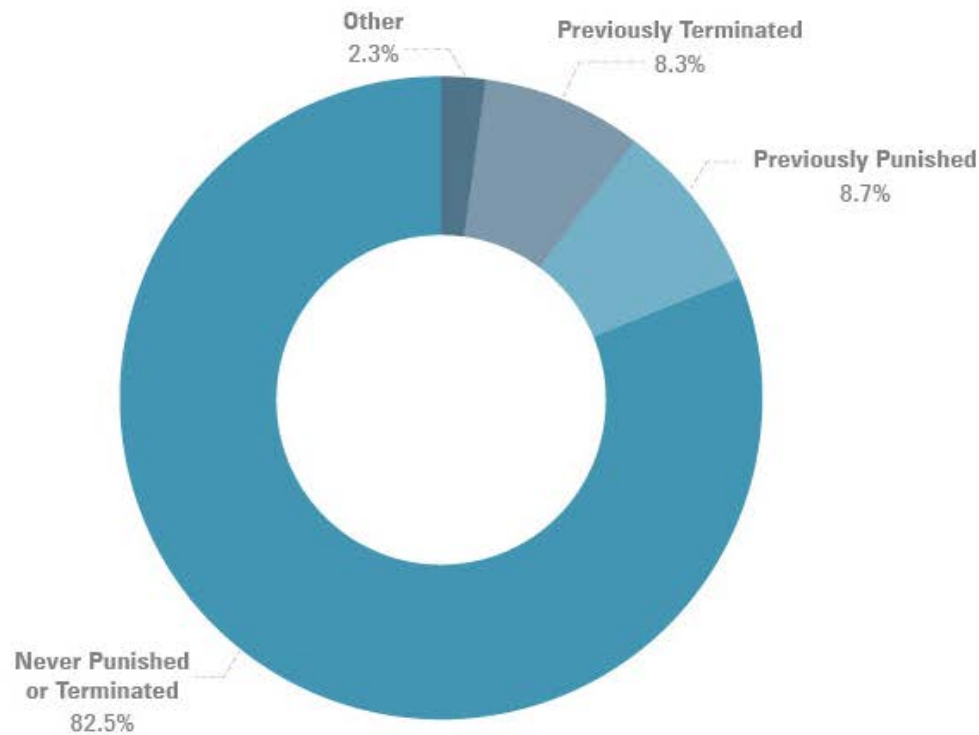
Figure 77: Department of Perpetrator—Frequency and Median Loss



*Internal Audit category had insufficient responses for median loss calculation.

Perpetrator's Employment History

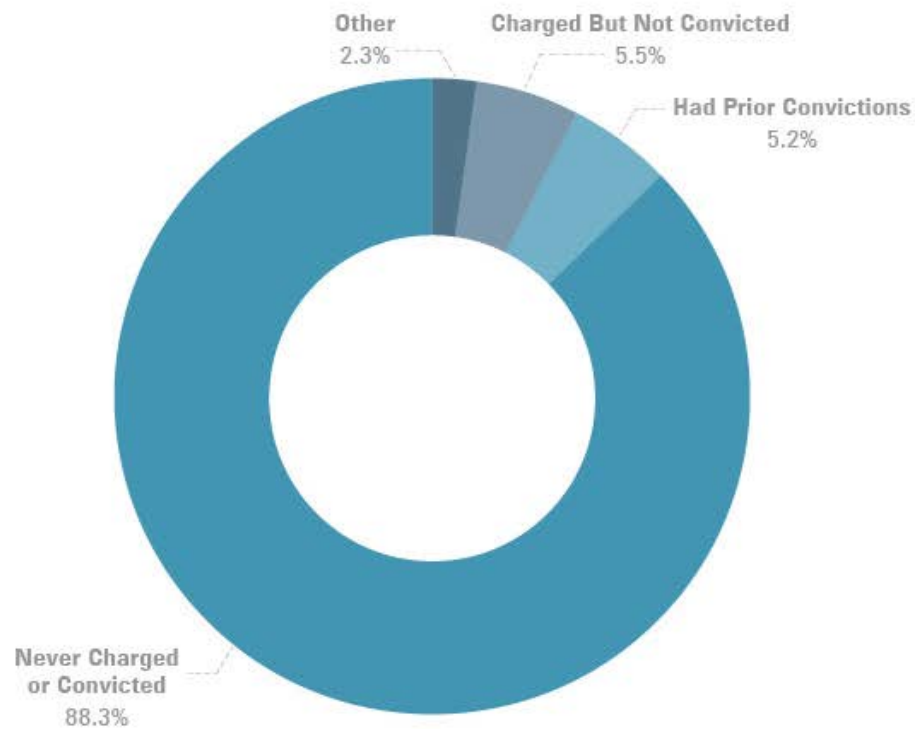
Figure 93: Employment Background of Perpetrator



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Perpetrator's Criminal Background

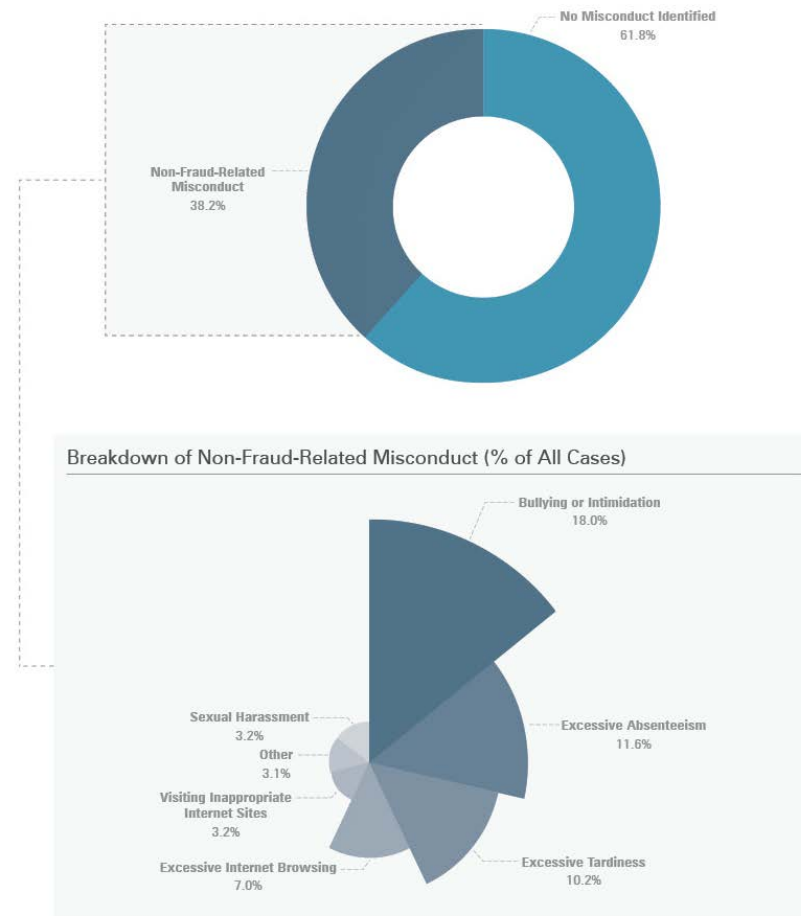
Figure 92: Criminal Background of Perpetrator



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Non-Fraud-Related Misconduct

Figure 98: Non-Fraud-Related Misconduct



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Understanding Behavior

Behavior

- Fraud is a human act.
- *Human behavior* refers to the physical actions and emotions displayed by humans.
- “The most comprehensible fact about human behavior is that it is incomprehensible.”



Behavior

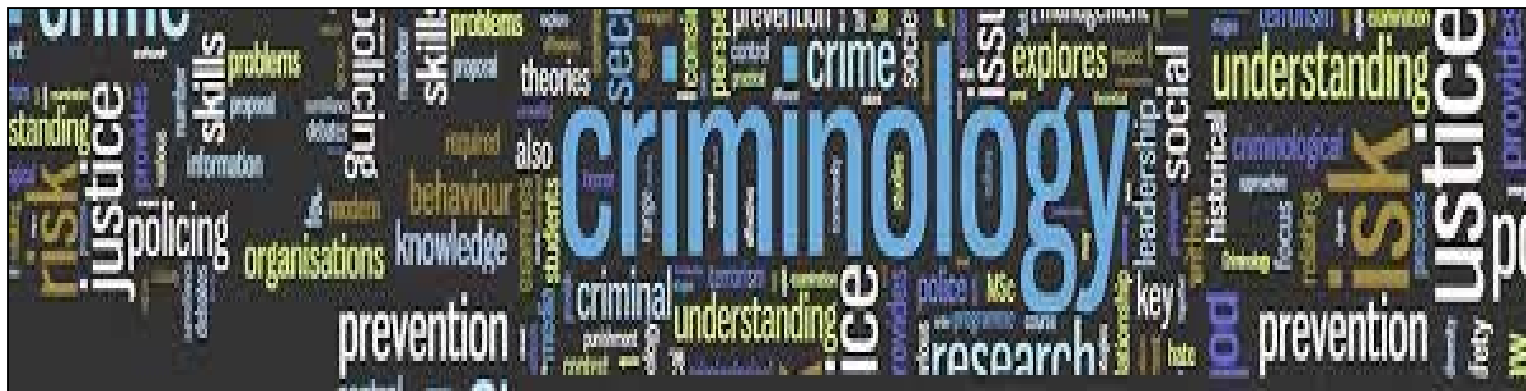
- Why do fraud examiners need to understand the mindsets of fraudsters?
- What motivates human behavior?
- What is criminology?
- What are the theories of criminology?
- What are criminogenic organizational structures?
- Why do people commit fraud?

Why Do Fraud Examiners Need to Understand the Mindsets of Fraudsters?

- Enhance understanding of motivations.
- Reduce the risk of projection bias.
- Improve professional skepticism.
- Manage human resources.
- Understand motivation.
- Address organizational behavior.
- Aid in building teams.

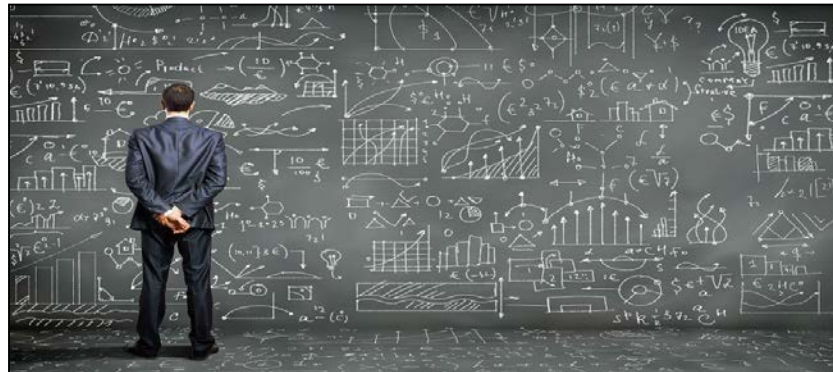
What Is Criminology?

- The study of crime from a social and individual perspective
- Purpose is to understand why people engage in criminal conduct



What Are the Theories of Criminology?

- Classical Criminology
- Deterrence Theory
- Social Control Theory
- Theory of Differential Association
- Differential Reinforcement Theory



What Are the Theories of Criminology?

- **Classical Criminology**
 - People have free will
 - Weigh gains and losses
- **Deterrence Theory**
 - If punishment is swift and certain, people less likely to engage in bad behavior
- **Social Control Theory**
 - Stronger attachment to society = less likely to commit crime
 - Society expects people to act a certain way

What Are the Theories of Criminology?

- Theory of Differential Association
 - Criminal behavior is learned through interaction with intimate, personal groups.
- Differential Reinforcement Theory
 - Positive reinforcement and the avoidance of punishment (negative reinforcement) encourage behavior.
 - Negative stimuli (punishment) and loss of reward (negative punishment) discourage behavior.

What Are Criminogenic Organizational Structures?

- Organizations are inherently “criminogenic,” meaning they are prone to committing crime.
- Reliance on the bottom line can invite fraud as a means of obtaining goals.



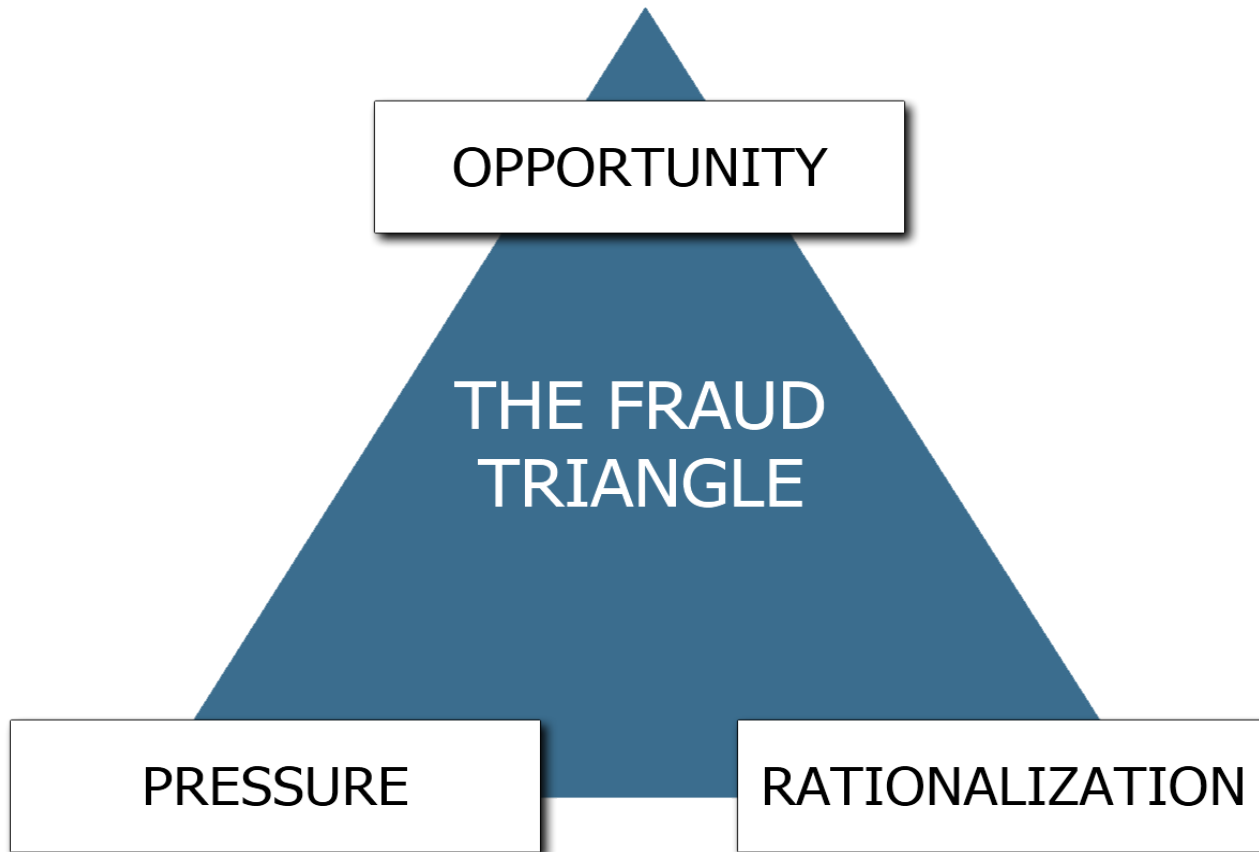
Employee Loyalty

- Organization tends to recruit and attract similar individuals
- Those who display characteristics of the “company man” usually receive rewards
- Company retirement and benefits encourage long-term loyalty
- Company parties and social functions also encourage loyalty
- Frequent transfers and long working hours encourage isolation from other groups
- Specialized job skills can discourage personnel from seeking employment elsewhere

Criminogenic Organizational Structures

- Molding the employee
 - Natural tendency to discourage initiative and encourage conformity
- Isolation
 - Corporate execs are isolated from “the real world”
- Profit pressure
 - “Single most compelling factor behind deviance”
- Management behavior
 - Regulations unnecessary or unjustified

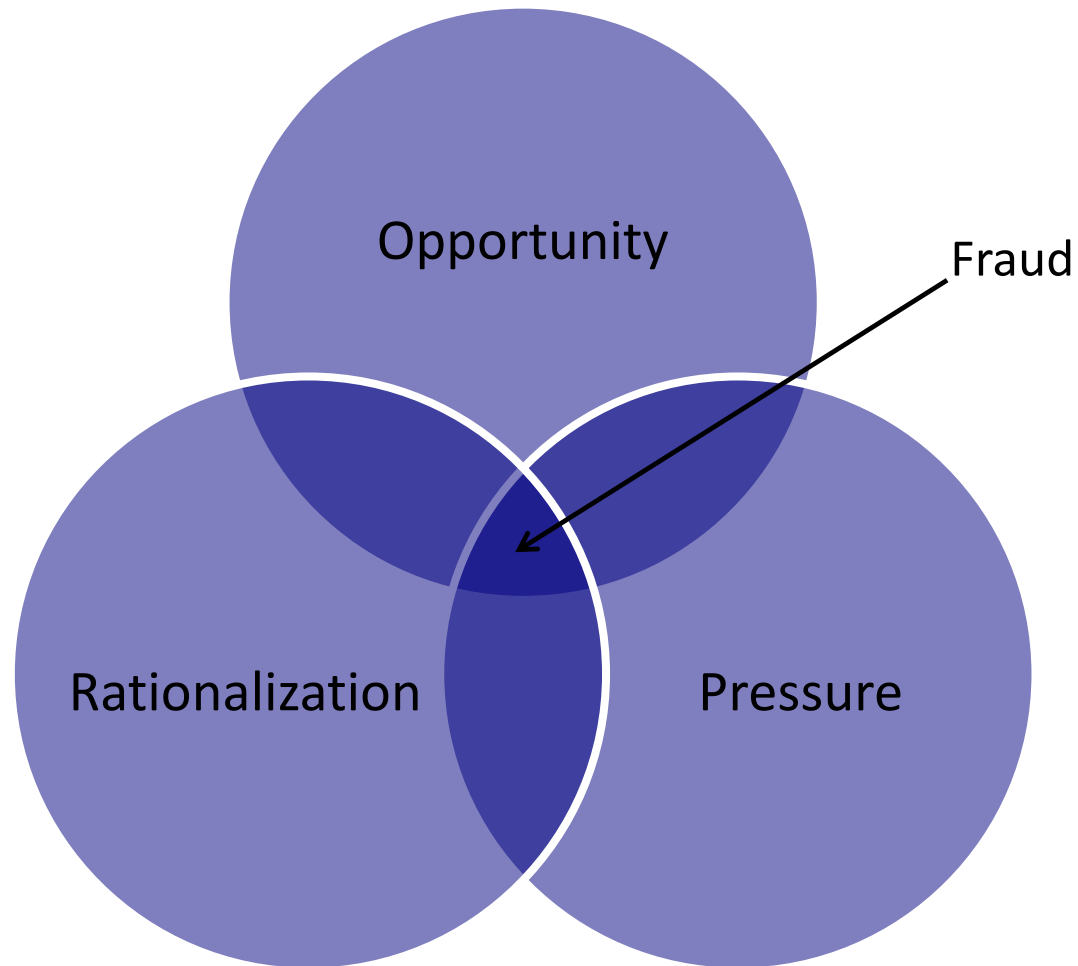
Why Do People Commit Fraud?



Limits of the Fraud Triangle

- It does not address the thought processes and personality or behavioral traits that compel perpetrators to engage in fraud in much detail.
- It excludes employees who commit fraud not to meet a financial need, but because they enjoy it.

Overlap of Fraud Risk



Personality Traits Associated with Fraudulent Behavior

- Interpersonally exploitative
- Unaccountable
- Greedy
- Power oriented
- Entitled
- Sensation seeking
- Sentimental
- Vengeful
- Overconfident
- Apathetic
- Selfish
- Dishonest
- Arrogant

Fraud and Misconduct

- Is there a relationship between occupational fraud and other forms of workplace misconduct?
- 40% of fraudsters had engaged in some form of non-fraud workplace violation
- Bullying or intimidation was the most common, followed by excessive absenteeism and excessive tardiness

Personality Disorders Associated with Fraudulent Behavior

- *Personality disorder*: persistent pattern of thoughts, feelings, and behaviors that is significantly different from what professionals consider normal within the person's own culture
- Antisocial personality disorder
- Psychopathy

Personality Disorders Associated with Fraudulent Behavior

- Individuals that commit crimes possess certain traits
- Promise of gratification
- Impulsivity, self-centeredness
- University study on fraud and personality traits

Personality Disorders Associated with Fraudulent Behavior

- Sociopathy
- Narcissism
- Histrionic personality disorder

Fixation on Money

- Fixation on money from a young age
- Awareness of an uncommon interest at young age
- Behavioral trait red flags as adults

Nature Versus Nurture

- Research in behavioral genetics finds antisocial tendencies and psychopathy highly inheritable
- Socialization also a factor
- More difficult for those with precursors to be socialized

Marshmallows And Self Control Experiment

- Stanford University experiment conducted by psychologist Walter Mischel, PhD published in 1972
- Weighing knowledge and goals vs impulse and emotion
- Susceptibility to emotional response influences behavior in life

The Theory of Self Control

- Less resistance to temptation
- Less resistance to opportunity
- Deviant behavior more common in those with less self-control
- Delayed gratification
 - Higher educational achievement
 - Better relationships
 - More self-control in professional life

Brain Scan Structure Experiment

- MRIs of 21 convicted white collar criminals compared to MRIs of non-criminal individuals of same age and social class compared
- Scans showed difference in neurobiological characteristics of white-collar criminals
- White collar criminals have information-processing and brain superiorities that can be an advantage in perpetrating criminal offenses