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How to Fraud-Proof Your Company

Fraud experts focus on ways to combat insidious insiders at the 19th Annual Association of Certified Fraud Examiners (ACFE) conference, and a convicted fraudster explains how he went down the wrong path

by Bill Brenner, Senior Editor,
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Patrick Kuhse wasn't born a [fraudster](#). He was once a law-abiding stockbroker with a golden reputation. One day he made a bad choice that led to many more. After he accumulated millions of ill-gotten dollars, the law caught up with him and a four-year prison stay followed.

Now a free man, Kuhse travels the lecture circuit, sharing his story on the hope that listeners won't make similar mistakes.

"I talk about why people do what they do and why I did what I did. I try to pass on critical thinking errors," Kuhse told attendees at the 19th Annual [Association of Certified Fraud Examiners \(ACFE\)](#) conference in Boston Wednesday. "When I went to prison I thought everyone would have long greasy hair and missing teeth. But many fellow inmates looked just like the people you want in your company. I wasn't sure why I did what I did. I didn't need the money or the prestige."

To say the corporate world is full of good people who can go corrupt through a series of bad decisions is stating the obvious. Security pros are well aware that one of their biggest challenges is [preventing insiders from mismanaging](#) the customer's money and violating their trust. They know people like that can destroy a company. That's why the security folks have a job.

Nevertheless, the threat of insider fraud is a moving target, and experts at the ACFE event sought to lay down some best practices attendees might not have in their arsenal. The goal: Give professionals new tips they can take back to the office, or at least reinforce things they already know.

Perhaps the biggest tip of all - A company can have the most ironclad employee ethics policy around, but not everyone reads the full policy and it's all wasted paper unless honorable behavior is sewn into the DNA of every worker through constant reinforcement from the top down.

Perhaps the most recent example of this is the [collapse of lender IndyMac Bank](#), which is now ensnared in an [FBI](#) investigation of nearly two dozen banks for possible mortgage fraud.

"Sometimes a company has the solid risk-ethics plan in place, but the tone of the policy doesn't always seep down to individual workers," [KPMG International](#) Forensics Director Guido van Drunen said during one panel discussion. "Enron once got an award for its code of ethics. The lesson is that you have to have consequences for misbehavior."

Kuhse's story

As Kuhse explained to his audience, he was a successful broker based out of San Diego in 1989 and had never considered doing anything illegal up to that point. Then one day a friend and branch manager from Oklahoma gave him a call to say she might leave the organization for a government job in the event one of her friends won a bid for state treasurer.

In the event that happened, she suggested, Kuhse could be her deputy bond trader for the state's general fund.

In the downward spiral that followed, her friend won the office, Kuhse started working for the office and the next thing he knew he was paying her kickbacks for special treatment that had made him millions of dollars. His bloated commission rate, it turns out, violated the spirit of state law.

Eventually, his friend in the treasury office fired an underling, who in turn exposed the corruption to the FBI. After the Feds came knocking, Kuhse and his wife and children fled to Costa Rica and evaded the authorities for nearly three years. Eventually, his wife and kids left him and he decided to turn himself in.

After prison, he pulled his life back together and made a career out of telling his tale.

He warned his ACFE audience that people like him are everywhere in corporate America and that better detection is needed along with serious consequences for those who are caught. He also told people to watch for warning signs within themselves - including arrogance, an over-abundance of optimism and a compulsion for instant gratification.

He said the people he talked to in prison had the same basic flaws in their thinking, whether they were there for white-collar crime, drug dealing or murder.

"What I didn't realize at the time was how my thought process and poor decision making skills were similar to the stories we are reading on the front page of the newspaper and hearing about on radio and television today," he said, referring to recent cases of corruption in the banking system that have contributed to the current economic meltdown.

Ethics from the top down

During the panel discussion van Drunen moderated, experts emphasized that [building ethics into the company culture](#) takes a concerted daily effort that starts with company leadership.

"The tone at the top is critical," said [Bank of America](#) corporate security chief Chris Swecker, a former FBI man who investigated more than 400 fraud cases while at the bureau. "Enron shows what can go wrong when risk management is way down the ladder."

Swecker said the 400-plus cases he investigated had the same problem as Enron, and that companies cease to exist when the public trust is violated.

To prevent this from happening at Bank of America, he said everyone is required to have ethics training, building good conduct it into the psyche of every employee.

"I have to take it. Everyone has to take it," he said of the training. "It has to be ingrained into the corporation itself. Otherwise, it doesn't work. I went out to Enron [to investigate], thinking there were a couple bad apples." He found that unethical behavior was endemic throughout the organization.

Building the right anti-fraud policy

In another ACFE presentation, Christopher Rosetti, a partner in the Forensic Accounting and Financial Investigations Division at [BST Valuation and Litigation Advisors](#), focused his presentation on key steps toward implementing a fraud and misconduct strategy.

He suggested a solid plan is based on:

- Ethical culture
- Effective personnel policies
- Awareness
- Reporting/feedback
- Monitoring

"An ethical culture is based on visible leaders, a values statement, communication of values, and a code of conduct that defines acceptable and unacceptable behavior," he said.

Most people are honest but can sometimes lapse into unethical behavior, not always realizing it. Therefore, Rosetti said, people need to be reminded of right and wrong.

"Spread the word via e-mail and the Web, attach the rules to paychecks and other forms," he said.

The code of conduct should include a checklist of right vs. wrong for everything from the use of mail facilities, office equipment, use of the Internet and outside employment. The code should clearly map out how confidential information should be handled and ensure severe punishment for those who use their position to acquire undeserved privileges. The code should even be clear about restrictions of on-site weapons.

"Some of these examples may seem absurd, but you never know what can happen," Rosetti said.

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