

CFE UPDATE
March-April 2001

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Chapter Fraud Seminar Training and Meeting Dates

Future fraud training events for calendar year 2001 are as follows:

June 27, 2001 - Chapter Fraud Seminar, Seattle.

August 29, 2001 - Chapter Fraud Seminar and Annual Business Meeting, Best Western Southcenter, Tukwila.

October 25 & 26, 2001 - Joint Chapter and Association of CFE's Fraud Conference, Doubletree Inn, SeaTac.

December 5, 2001 – Joint Chapter and WSCPA Fraud Conference, Marriott Hotel, SeaTac.

Be sure to mark these important dates on your training schedule and plan to attend.

The Chapter Board of Officers announces the following changes regarding our fraud seminar training facility in downtown Seattle. The State of Washington Housing Finance Commission that controls the conference room where our meetings are held has asked for our cooperation in implementing these changes.

- (1) First, **security** has changed in the building. The staff asked us to go to the Commission's main offices on the 27th Floor and **sign-in with the receptionist** before going to the 28th Floor conference room for the fraud seminar. They didn't say anything about signing-out. So, we'll provide that information to you at the seminar.
- (2) Second, the **timing** of our fraud seminar has changed. The staff asked us to depart the facility promptly because their duty day ends at 5:00 p.m. Therefore, **we will begin all meetings promptly at 3:00 p.m. and wrap-up all fraud seminars at 4:45 p.m. sharp** so that we can comply with this new requirement.

The Chapter Board of Officers appreciates your cooperation as we implement these changes.

Earthquake in the Puget Sound Region

As you know all too well, the Puget Sound Region experienced a deep-earth 6.8 earthquake at about 10:50 a.m. on February 28, 2001. Wherever you were, this seismic event caused quite a bit of havoc in the Pacific Northwest. After about 30 seconds of rocking and rolling, our world stopped shaking and we somehow began the process of getting back to normal, whatever that is. Most of us got little accomplished during the rest of the day.

Our Chapter fraud training seminar in downtown Seattle was scheduled for 3:00 p.m. on the day of the “big one”. However, it was cancelled. After all the dust settled, we learned that two Chapter members actually made their way to the training facility despite all the turmoil. Our congratulations go to Linda Saunders and Bob Fuhriman for their dedication and support of our Chapter training program. But, this was obviously well beyond the call of duty for the rest of us.

As a result, we’ve rescheduled the topic of the February meeting to our April meeting. See additional details that follow.

Earthquakes affect everyone differently on an emotional level; so, some of us may take more time to get back to normal than others. We’re sure you’ve found the earthquake to be more than just a physical event. The Chapter Board of Officers hopes that all of you are doing well, and that you did not experience any serious damage to your homes or business offices. We know there are those around us who experiences one or both.

For example, the Legislative Building (Capitol Rotunda) in Olympia is still not back to normal as of the date of this newsletter. Engineers have inspected the building and reconstruction work has begun; but, employees have not yet returned to work in the facility. There are at least three CFE’s from the Washington State Auditor’s Office who are still operating from temporary facilities. They are: Joe Dervaes, Morgan Jacobson, and Keith Lougheed. These folks may not be able to return to their offices for another month or so. This is but one example, and we know you have similar stories to share.

The Pacific Northwest Chapter Is Well Represented!

The Chapter Board of Officers is proud to announce that many members of our Chapter participate in a wide variety of volunteer activities for the Association of Certified Fraud Examiners and the Pacific Northwest Chapter of CFE’s. They are:

Association of CFE’s:

- (1) Fellow. Joe Dervaes.
- (2) Board of Regents. Joe Dervaes, Chairperson.
- (3) Faculty Members. Joe Dervaes, Bob Fuhriman, and Linda Saunders.
- (4) Committees. Kent Hansen, Commerce Committee Member; Jim Cronin, Insurance Fraud Committee Chairperson; and, Grant Santee, International Fraud Committee Member.
- (5) Contributing Author, “Fraud Examiner’s Manual” (Second Edition). Joe Dervaes.
- (6) Contributors to “Occupational Fraud and Abuse” Book by Chairman Joe Wells. Joe Dervaes and Rick Osborn.
- (7) Author for Articles in the Association’s Newsletter, “The White Paper”. Joe Dervaes.

- (8) Representative to Chapter Meetings Held at Annual Fraud Conference. Joe Dervaes, Norm Gierlasinski, and Linda Saunders.

Pacific Northwest Chapter of CFE's:

- (1) Board of Officers. Norm Gierlasinski, President; Joe Dervaes, Vice-President, Roger Gulliver, Secretary-Treasurer; Gail Rogers, Director-At-Large; and, Bob Fuhriman, Director-At-Large.
- (2) Fraud Seminar Leaders. Norm Gierlasinski, Joe Dervaes, Bob Fuhriman, Jim Cronin, Linda Saunders, Dan Hutcherson, Sherri Winslow, and Dale Zlock.
- (3) Newsletter, Membership Directory, and Mailing List. Joe Dervaes; Gail Rogers; and, Roger Gulliver.
- (4) Multi-Media Library. Gail Rogers.
- (5) Auditor of Financial Statements. Rick Osborn.

If you have any questions or comments about Association or Chapter operations, or need to contact someone regarding a particular topic, this list will give you a good place to start.

The Chapter Board of Officers thanks each and every person on this list for your dedication to the cause of CFE's everywhere and for your valuable, volunteer service. We want you to know that we appreciate your efforts very much, and look forward to your continued participation in Association and Chapter activities. Keep up the fantastic work!

If you are interested in serving your Chapter in some capacity, please notify Chapter Vice-President Joe Dervaes. We appreciate your support, regardless of the role you might play in the life and times of the Chapter. Please also remember to encourage someone who is making a difference in the professional life of others. Thanks.

Association Fraud Body of Knowledge

The Association of CFE's is always looking for members who have valuable fraud information to share. This information then becomes the **Fraud Body of Knowledge**. Chapter Vice-President Joe Dervaes is an advocate for this critical part of our professional life. Listen to what he has to say.

“Fraud education and training is my passion. After 37 years of audit experience, including the last 14 years dedicated exclusively to fraud investigation, I found that I could no longer be satisfied with knowing and applying these important facts just for myself. I began a journey to document my life experiences in fraud investigation and to share them first with others in my organization. This effort began with the Washington State Auditor's Office newsletter and later led to the development of a number of agency fraud training courses for auditors. Next, I began to share these experiences outside my organization. I began contributing fraud material for the newsletters of the Municipal Treasurer's Association of the United States and Canada, the Washington Finance Officer's Association, and the Pacific

Northwest Chapter of CFE's. Fraud seminars for governments and professional associations came next. It's one thing to teach auditors how to detect fraud; but, it's quite another to teach managers how to both deter and detect fraud in the workplace. After all, these are the folks who are present every day and know their organizations best. I believe that it would be a big mistake to know this information and not share it with them. Therefore, I do, averaging almost one public speaking engagement somewhere in the state of Washington every week of the year and reaching over 2,500 government financial managers annually.

After joining the Association of CFE's in 1989, I contributed material for the "Fraud Examiner's Manual", Chairman Joe Wells' book on "Occupational Fraud and Abuse", and an Association fraud course on "Cash Receipt and Cash Disbursement Fraud". Over time, I began to submit fraud articles for publication in the Association's newsletter, "The White Paper". At the present time, my profile and three fraud articles have been published in this international magazine. Just recently, the Association asked me if I would be a regular contributor for a by-line column called "Fraud's Finer Points", which is published in each newsletter magazine. I proudly accepted. What an honor. The first article will be published in Summer 2001. Finally, I submitted my "Fraud Detection and Development" training manual to the Association and was approved by the Board of Regents as the first-ever Fellow. Exhilarating! What a trip this has been, something beyond my wildest thoughts and dreams!

As a member of the Association's Board of Regents, the **Fraud Body of Knowledge** has been the topic for each of my annual speeches at the opening ceremonies of the Association's Annual Fraud Conference. I will continue this emphasis during my term of office. But, we must all do our part in the grand scheme of things. Don't just sit back, enjoy the fraud material, and wait for someone else to carry the torch! This journey, your journey, begins with but a single step. I encourage members of the Pacific Northwest Chapter of CFE's to get your thoughts together. Organize your material. Then, submit your articles to the Association for publication. This is very rewarding and fulfilling work that is being done, and you need to be involved in this great adventure.

Do it for yourself. Do it for your organization. Do it for the Pacific Northwest Chapter of CFE's. Do it for others in your professional community. Do it for the Association of CFE's. But, regardless of who you do it for, or for what reason, get going and **DO IT!** You will not regret one step of this journey in your professional life. I know I haven't! Who will be the next author?"

Fraud Tips

By: Joseph R. Dervaes, CFE, CIA
Director of Special Investigations
Washington State Auditor's Office

Forty Common Forms of Fraud

1. Pilfering postage stamps.
2. Stealing merchandise, tools, supplies, and other items of equipment.
3. Removing small amounts from cash funds and registers.
4. Failing to record sales of merchandise and pocketing the case.
5. Creating overages in cash funds and registers by under-recording.

6. Overloading expense accounts or diverting advances to personal use.
7. Lapping collections on customers' accounts.
8. Pocketing payments on customers' accounts, issuing receipts on scraps of paper or in self-designed receipt books.
9. Collecting an account, pocketing the money, and charging it off; collecting charged-off accounts and not reporting.
10. Charging customers' accounts with cash stolen.
11. Issuing credit for false customer claims and returns.
12. Failing to make bank deposits daily or depositing only part of the money.
13. Altering dates on deposit slips to cover stealing.
14. Making round sum deposits and attempting to catch-up by the end of the month.
15. Carrying fictitious extra help on payrolls or increasing rates or hours.
16. Carrying employees on payroll beyond actual severance dates.
17. Falsifying additions on payrolls.
18. Destroying, altering, or voiding cash sales tickets and pocketing the ash.
19. Withholding cash sales receipts by using false charge accounts.
20. Recording unwarranted cash discounts.
21. Increasing amounts of petty cash vouchers and/or totals in accounting for disbursements.
22. Using personal expenditure receipts to support false paid-out items.
23. Using copies of previously used original vouchers or using a properly approved voucher of the prior year by changing the date.
24. Paying false invoices, either self-prepared or through collusion with suppliers.
25. Increasing amounts of suppliers' invoices through collusion.
26. Charging personal purchases to the employer through misuse of purchase orders.
27. Billing stolen merchandise to fictitious accounts.
28. Shipping stolen merchandise to an employee's or relative's home.
29. Falsifying inventories to cover thefts or delinquencies.
30. Seizing checks payable to the employer or to suppliers.
31. Raising canceled bank checks to agree with fictitious entries.
32. Inserting fictitious ledger sheets.
33. Causing erroneous footings of cash receipts and disbursement books.
34. Deliberately confusing postings to control and detail accounts.
35. Selling waste and scrap materials and pocketing proceeds.
36. "Selling" door keys or the combination to safes and vaults.
37. Creating credit balances on ledgers and converting to cash.
38. Falsifying bills of lading and splitting with the carrier.
39. Obtaining blank checks (unprotected) and forging the signature.
40. Permitting special prices or privileges to customers, or granting business to favored suppliers, for "kickbacks".

“How to Steal \$500 Million” Association of Certified Fraud Examiners Video Presentation

This one-hour video discusses the famous Phar-Mor fraud case. In it will be seen how banks, vendors, and stockholders were defrauded by President, Mickey Monus, using schemes involving inventory, payables, and a lavish lifestyle.

At the conclusion of the video, the Board of Directors of the Pacific Northwest Chapter will lead a panel discussion, allowing all present to share opinions as to how and why the fraud occurred, and how it may have been prevented. Come join your professional colleagues for an outstanding learning encounter.

April 25, 2001

3:00-5:00 p.m.

Two Hours CPE Credit