



Profiling the Fraudster: Part 1

Course #1122A

Auditing

2 Credit Hours

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PROFILING THE FRAUDSTER: PART 1

This course provides an overview of investigative psychology that will allow businesses to close this gap in fraud prevention. Topics covered include: what makes up a fraud profiling strategy, characteristics of a typical fraudster, which assets are most often misappropriated, fraud that can be discovered by chance and how to recognize red flags of a fraudster.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

**Using Profiling in the Fight against Crime and Occupational Fraud
Criminal and Fraud Offender Profiling
Behavioral Warning Signs or Red Flags
Motivation and Opportunity as Key Indicators
Profiling Individual Behavior and Characteristics of a Fraudster**

Study the course materials from pages 1 to 62

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recognize what makes up a fraud profiling strategy.
- Identify the characteristics of a typical fraudster.
- Recognize what assets are most often misappropriated.
- Recall the level of fraud discovered by chance.
- Recognize red flags of a fraudster.

NOTICE

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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CHAPTER 1: USING PROFILING IN THE FIGHT AGAINST CRIME AND OCCUPATIONAL FRAUD

Chapter Objective

After completing this chapter, you should be able to:

- Recognize what makes up a fraud profiling strategy.

Reaction to crime can be generally categorized as being either reactive or proactive in nature. While it is generally acceptable that prevention is better than cure, we live in a world where budgetary and skillset constraints far too often result in the placing of more reliance on reactive crime management in the form of after-the-event investigation.

While *fraud* is defined as the unlawful and intentional making of a misrepresentation that causes actual or potential prejudice to another, *criminal investigation* is the systemic search for the truth and is primarily aimed at the positive clarification of the crime situation on the basis of objective and subjective traces. The criminal investigation is reactive and occurs following the crime event. *Crime intelligence* is intelligence used in the prevention of crime or in the conduct of investigations in order to prepare evidence for the purposes of law enforcement and the prosecution of offenders.

THE MIND OF ADOLF HITLER

The origins of profiling can be traced back to as early as the Middle Ages. During the 1880s, Thomas Bond, a medical doctor, tried to profile the personality of Jack the Ripper. Bond, a police surgeon, assisted in the autopsy of one victim. Dr. Bond tried to reconstruct the murder and interpret the behavioral pattern of the offender and came up with a profile and signature personality traits of the offender to assist the police in their investigation. The profile dictated that several murders in the area had been committed by one person alone who was physically strong, composed, and daring. The unknown offender would be quiet and harmless in appearance, possibly middle-aged, and neatly attired, probably wearing a cloak to hide the bloody effects of his attacks. He would be a loner, without a real occupation, eccentric, and mentally unstable. Bond also mentioned that he believed the offender had no anatomical knowledge and could not be a surgeon or butcher.

In 1943, the U.S. Office of Strategic Services (OSS) asked Dr. Walter C. Langer, a psychoanalyst based in Boston, to develop a profile of Adolf Hitler. The OSS wanted a behavioral and psychological analysis for the construction of strategic plans, given various options. Dr. Langer used speeches, Hitler's book *Mein Kampf*, interviews with people who had known Hitler, and some 400 published works to complete his wartime report, which was eventually declassified by the OSS and published by Langer as *The Mind of Adolf Hitler* in 1972. This work contains a profile of Hitler's possible behavioral traits and his possible reactions to the idea of Germany losing World War II. Dr. Langer's profile of Hitler noted that Hitler was meticulous, conventional, and prudish about his appearance and body. He was robust and viewed

himself as a standard bearer and trendsetter. He had manic phases, yet took little exercise. Langer also believed that Hitler was in reasonably good health, so that it was unlikely he would die from natural causes, but that he was deteriorating mentally. He would not try to escape to a neutral country, nor would he, in Langer's opinion, allow himself to be captured by the Allies. Hitler always walked diagonally from one corner to another when crossing a room, and he whistled a marching tune. He also had a severe fear of germs. Langer's profile also pointed out that Hitler detested the learned and the privileged, but enjoyed classical music. He showed that Hitler had strong streaks of sadism and liked circus acts that were risky and dangerous. He tended to speak in long monologues rather than have conversations. He had difficulty establishing close relationships with anyone. Since he appeared to be delusional, it was possible that his psychological structures would collapse in the face of imminent defeat. The profile went on to reveal the most likely end scenario was that he would commit suicide, although there was a possibility that he would order one of his henchmen to perform euthanasia, according to Langer.

Proactive crime management is driven by intelligence and therefore involves a broader range of enforcement stakeholders, including those who are intelligence led, investigators, professionals, and the community at large. Such intelligence is concerned not only with the methodologies for committing crime or the modus operandi but also with the evidence likely to be apparent such as spending beyond one's means, out-of-character displays of wealth, and so on. This proactive approach to crime management can be applied to the investigation of potential fraudulent activity. Fraud cases reveal a microcosm of methods used and resulting evidence from fraudulent activity. What is needed is a *fraud profiling* strategy that is focused, flexible, and cost-effective, allowing management to work as a key player in assuming responsibility for managing fraud risk and being proactive in its prevention and removal.

DEVELOPMENT OF THE PSYCHOLOGY

Profiling is all about the psychology of people and the way they behave and act. It is about the use of general or personal characteristics or behavioral patterns in attempting to understand a person or group of people to make generalizations about an individual, group, or a situation at some point in the future. Taking this to the next level, profiling is the use of these historical characteristics to determine whether a person may be engaged in illegal activity or fraud.

The recording and analysis of a person's psychological and behavioral characteristics so as to assess or predict his or her capabilities in a certain sphere or to assist in identifying categories of people or the practice or method of preparing a set of characteristics belonging to a certain class or group of people or things by which to identify individuals as belonging to such a class or group, linking them to a possible crime, is what we can refer to as *profiling*.

It can be somewhat frustrating to employers and fraud investigators looking for a quick filter that will keep financial criminals out of their organization or enable them to identify criminals who have somehow sneaked past the gatekeeper. We all want criminals to look like "them" and not like "us." If only life was that simple!

Criminologist Edwin Sutherland developed the concept of *white-collar crime* to drive a spike into theories that suggested that poverty, defective personality, or inability to delay gratification were actual causes of crime.

Those theories had provided a warm security blanket for criminologists and fraud risk managers because they implied that crime could be dealt with by eliminating poverty through social welfare or economic growth, by education, by confinement of the insane, and by sterilization of those who carry the genes for delinquency, theft, or, quite simply, failing to act like ethical employees.

If we listen to Japanese exponents of blood type psychology, a pseudo-science now embedded in Japanese popular culture and corporate recruitment, they have been claiming for some time that blue-collar criminals are predominantly of the O blood group, whereas white-collar crime involves people with A group blood type. This, of course, does not mean that all people with A group blood are fraudsters and that they need be refused access to employment. Effective profiling will involve many variants of characteristics to indicate a most likely scenario and not a definitive checkbox of yes, he is a fraudster, or no, he is not.

For example, it has been claimed that *Harry Potter* readers can be sorted into four distinct categories. *Hufflepuffs* read slowly and then reread the books. *Gryffindor* readers inhale the latest Potter in one sitting and quickly move on. *Ravenclaws* read for light entertainment, and *Slytherin* readers simply are not committed to the Potter cult. They prefer the films and may pretend to have read the books.

So, there is no stereotype or standard profile of people who perpetrate organizational fraud. The perpetrator could be a neighbor, a coworker, an entrepreneur, a professionally qualified individual or institution, or even you or me, trying to create an impression that we are not by writing and reading antifraud books. I have no doubt that fraudsters are as interested in antifraud methodologies and profiling as fraud risk managers or even more so. People involved in fraud can be recruited by ringleaders to participate in large-scale syndicated fraud rings, or they can be opportunists who try to bluff their way around the system.

So, financial crime is not restricted to the following stereotypes:

- The poor.
- People behind the cash register or front counter.
- Private sector enterprises.
- Government agencies.
- A particular gender, ethnic group, or religious faith.
- People with or without a particular type of education.
- People with addiction or abuse problems.
- People with personal problems or those undergoing a relationship meltdown.
- Those who are ugly or those of a particular blood group.

It has been claimed that people with specific attributes are more likely to engage in financial crime or specific types of financial crime. For example, women are more likely to engage in petty front-office fraud,