

# Patterns in the Mindset and Motivation of the White-Collar Criminal

Research Project for Emerging Issues/Advanced Topics Course

Diploma in Investigative and Forensic Accounting Program

University of Toronto

Prepared by Athena Koros

June 16, 2017

For Professor Leonard Brooks

### **Acknowledgements**

The Diploma in Investigative & Forensic Accounting (DIFA)<sup>1</sup> gives each student an opportunity to write a research paper on a topic that is of interest to them and pertinent to Investigative and Forensic Accountants (IFAs). This research may also be relevant to the business community at large. Selecting a topic is difficult as the topic of fraud in our business and personal communities is far-reaching. This paper researches Patterns in the Mindset and Motivation of the White-Collar Criminal.

I would not have written this paper without the help and interest of others. This includes Professor Len Brooks, the Director of the DIFA program for his calm and reassuring manner. Debby Keown, the Program Officer of the DIFA program, who would give me what I needed without even knowing I needed it. My mentor, Jarrett Reaume, B.Acc., CPA, CA-IFA, CBV, CFF, CFE and Partner at Matson, Driscoll & Damico Ltd. for his guidance and support. My readers; Professor Paul Callaghan, BSc, BEng, MBA who currently lectures and serves as Director of Acadia University's F.C. Manning School of Business; and Professor Linda Wheeldon, B.A., M.Ed. (California State) who lectures for Acadia University's School of Education Masters Program in Counselling. She also privately practices psychotherapy.

I thank my DIFA instructors for challenging and providing me with an exceptional opportunity for professional and personal growth.

---

<sup>1</sup> The Diploma of Investigative & Forensic Accounting is offered through the University of Toronto's Mississauga campus.

I thank all my friends for their emotional support during my journey into higher education. I especially thank Joyce Kublin, Sharon LeBlanc and Jan Oosterhoff. I thank my friend Lynn Dunham for her formatting assistance.

I also thank my children Dimitri Galatis and Nicole Galatis who have been the greatest teachers and inspirations in my life.

## **Interviewees**

### **Scott Porter, CPA, CA, IFA, CFF**

Mr. Porter is a Senior Investigator of Professional Conduct at CPA Ontario where he investigates Professional Accountants who have allegedly committed professional misconduct, including alleged fraudulent behavior. He has held that position for ten years. Prior to that he worked at PriceWaterhouse Coopers as an auditor and then in their forensic accounting department for a total of eight years. Scott's research paper, written in 2011, for the DIFA program was titled "The Confession Interview, Ethical, Legal and Psychological Implications for the IFA". He has since then spoken professionally at conferences across Canada and the United States on how to better conduct interviews for investigations.

The interview with Mr. Porter took place on May 12, 2017.

### **Charles Smedmor, CPA, CA, CFF, CFE**

Charles Smedmor is the managing director of Smedmor & Associates in Toronto, Ontario; it provides litigation, forensic and due diligence accounting services. He has over 25 years of work experience in the forensic, investigative and litigation accounting field. Prior to becoming the managing director of Smedmor & Associates he worked for Peat Marwick Lindquist Holmes (subsequently known as KPMG Peat Marwick Thorne), Price Waterhouse and Berenblut & Rosen. His work assignments have taken him abroad to Bermuda, Bulgaria, the Czech Republic, Hungary, Mexico, Moldova, Romania, the Ukraine and the United States. He has also taught on the topic; his teaching assignments

have included: the Canadian Condominium Institute, Toronto, the Centre for Financial Services, Seneca College, Toronto; Humber College, Toronto; and guest lecturers at Ryerson University, Toronto; and the Schulich School of Business, York University, Toronto.

The interview with Mr. Smedmor was conducted on May 15, 2017.

**Third interviewee**

A third interview took place on May 13, 2017. This individual has given permission to use their comments to support research for this paper, but has requested anonymity.

Professor Len Brooks is aware of who the individual is.

**Contents**

Introduction .....1

    Approach to research and preliminary findings ..... 1

    Pervasiveness of fraud in the workplace ..... 2

    Accountants and the study of behavioral science..... 4

    Vigilance and skepticism in the face of white-collar crime ..... 5

    IFAs objectivity and their role in investigations ..... 5

    Types of fraudsters ..... 6

    Definitions ..... 6

        Pattern..... 6

        Mindset..... 7

        Motivation ..... 9

        Greed ..... 10

Organizational structure .....12

Employer-employee relationship.....12

White-collar criminal .....13

Occupational fraud .....14

    White-collar crime as an aspect of fraud ..... 14

    Example of blue-collar crime ..... 15

    Types of white-collar crimes ..... 16

Fraud models .....16

    The Fraud Triangle ..... 18

    The Fraud Diamond..... 20

    GONE Theory of Fraud..... 23

Personality disorders .....24

    Definition of personality..... 24

    Personality disorders pertinent to understanding white-collar crime ..... 27

        Antisocial personality disorder ..... 28

        Narcissistic personality disorder..... 30

        Histrionic personality disorder ..... 32

    Diagnostic labelling..... 34

Fraudster mindset .....35

    Tenure with the organization..... 35

Expectation of white-collar criminal .....	36
Wheeler-dealer attitude .....	38
Smarter than everyone else.....	39
Position of authority within organization correlates to the size of the fraud .....	39
Conflict in job requirements needed to fill white-collar positions .....	40
Behavioral red flags.....	40
Demographics of white-collar criminals .....	43
Length of time with organization .....	43
Age of Perpetrator .....	43
Gender of Perpetrator .....	44
Education of Perpetrator.....	46
Motivation of the white-collar criminal .....	47
Financial motives .....	47
a) Living beyond one’s means.....	48
b) Financial difficulties.....	48
c) Unusually close association with vendor/customer.....	49
d) Divorce/family problems.....	49
e) Addiction problems .....	49
Non-financial motives .....	50
a) Corporate financial pressure.....	50
b) Fear of losing employment .....	50
c) Ego.....	51
d) Revenge against the organization .....	52
e) Wanting to please their employer or spouse.....	53
Summary .....	55
Men as perpetrators of white-collar crimes .....	55
Knowledge of patterns of white-collar criminals are helpful to IFAs .....	57
IFAs use of behavioral assessment in their investigations .....	58
Value in background checks as a source of information on prospective employees.....	58
Value in continual background checks in course of employment .....	59
Conclusion.....	60
Appendix A .....	63
Appendix B.....	64

## **Introduction**

### **Approach to research and preliminary findings**

The research for this paper began with a review of three papers written by DIFA students on the same topic in 2014. The approach then taken was to investigate new research that has been conducted since 2014 on the same topic. This approach was taken to determine if there were new revelations in patterns in the mindset and motivation of white-collar criminals. The research did result in findings that may help further explain why men perpetrate white-collar crime between the ages of 40 and 55. It may also help explain why men of this age, who do commit white-collar crime, are found to be first time offenders.

Definitions of terms commonly used in forensic accounting and for this paper were reviewed to ensure that the reader was clear on their meanings. A review of fraud models used by forensic accountants was performed to give the reader a sense of the tools that are used by IFAs to understand white-collar crime.

Understanding the psychology of a fraudster has become one way for IFAs to better understand the white-collar criminal. And because of this, a discussion has been included to define a healthy personality followed by an explanation of personality disorders that are commonly known to be exhibited by fraudsters.

The paper then looks at patterns in the white-collar mindset followed by patterns in motivation exhibited in white-collar criminals. The paper concludes with an examination

Field Code Changed



of patterns in men's aging and how it correlates to the high incidence of white-collar crime in men between the ages of 40 and 55.

### **Pervasiveness of fraud in the workplace**

The Association of Certified Fraud Examiners (ACFE) comprehensive 2016 Global Fraud Study has again confirmed that organizational fraud is the cause of organizations losing an average of 5% of their revenues annually.<sup>2</sup> The report calculates approximately \$6.3 billion US dollars in losses with respect to the cases studied. The median average loss per case equalled \$150,000 US dollars.<sup>3</sup> These statistics are based on ACFE's analysis of 2,410 white-collar crime cases that were investigated by Certified Fraud Examiners (CFEs).<sup>4</sup> However the report estimates world-wide annual losses, due to fraud based on the World Gross Product, to be \$74.16 trillion US dollars.<sup>5</sup>

No organization is exempt from the risk of fraud<sup>6</sup> even with tight controls, whistle-blower hotlines and codes of conduct. Large and small organizations cannot afford to ignore that fraud is a risk of doing business. The median loss resulting from fraud is the same for small businesses as it is for large business.<sup>7</sup> (Small businesses are defined as those that have less than 100 employees and large businesses are defined as those having more than 10,000 employees.<sup>8</sup> )

---

<sup>2</sup> Association of Certified Fraud Examiners (ACFE), Report to the Nations on Occupational Fraud and Abuse, 2016 Global Fraud Study, 4.

<sup>3</sup> ACFE, 4.

<sup>4</sup> ACFE, 6.

<sup>5</sup> ACFE, 8.

<sup>6</sup> Deepa Mangala "Corporate Fraud Prevention and Detection", 59.

<sup>7</sup> ACFE, 4.

<sup>8</sup> ACFE, 4.

Of the 2,410 cases investigated by ACFE, 83.5% (2,012 cases) of the fraud committed within organizations was the result of asset misappropriation, whereas only 10% of fraud was related to financial statement manipulation. Corruption was found in 35% of the cases. (See Appendix A for a description of the many forms of fraud that can occur for each type of occupational dishonesty.) Of those 83.5% that involved asset misappropriation, the most common way employees deceived their employers was through invoicing schemes which accounted for 22.2% of the 83.5% with a median loss to the organization of \$100,000 US dollars. The costliest scheme was via cheque tampering which occurred 11.4% of the time for a median loss of \$158,000 US dollars.<sup>9</sup>

These statistics highlight the extent of fraud perpetrated against organizations by their employees. They are limited in their representation because they only reflect cases that were reported to ACFE by CFEs who chose to participate in the study. They also only report occupational crimes that were investigated. There is much occupational crime that goes undetected, unreported and uninvestigated. However, the study does lead one to understand the extent and pervasiveness of organizational crime and is an excellent tool for fraud investigators, employers and educators.

---

<sup>9</sup> ACFE, 14.

### **Accountants and the study of behavioral science**

Accountants do not study human behavior. However, for IFAs who investigate white-collar crime, it may become important to understand the complexity of human behavior and this may become a part of understanding the complexity behind the numbers.

For IFAs there is a level of psychological understanding that is essential to better excel in the field of investigative and forensic accounting. IFAs are, in some situations, investigating and interviewing employees who are potentially perpetrating and harming organizations and individuals at great expense and for various reasons. The IFA's ultimate objective is to help the court to better understanding the numbers. If IFAs are to understand the numbers we need to better understand the perpetrator's motivation and mindset.

*"...People trump internal policies, processes, and controls and people respond to incentives. To the fraudster, comprehensive and well-documented policies, procedures, and controls provide the landscape to navigate in order to commit fraud. In other words, fraudsters know what is being watched and how to avoid these areas to go undetected in their transgressions. For many of these bad actors, the creative process used to find ways around systems is stimulating and rewarding."*<sup>10</sup>

---

<sup>10</sup> Ramamoorti, Sridhar, "A.B.C.'s of Behavioral Forensics," (New Jersey; John Wiley & Sons, Inc., 2013), 214.

### **Vigilance and skepticism in the face of white-collar crime**

Because each white-collar crime is as individual as the person who perpetrates it, IFAs must always remain vigilant by tailoring each investigation. IFAs and employers need to remain vigilant and maintain a healthy amount of skepticism in their investigations and hiring of employees respectively. Employers need to persist in maintaining a healthy skepticism of their employees in their continued long-term relationships with them. This skepticism needs to be maintained regardless of the tenure and loyalty portrayed by employees.

### **IFAs objectivity and their role in investigations**

It is imperative for IFAs to maintain their objectivity in their investigations and in their dealings with clients and alleged suspects. When dealing with alleged white-collar criminals IFAs must remember that they are people as well and that it is their behaviors that are not appropriate.<sup>11</sup> They are still individuals who need to be treated with respect and dignity and it is their behavior that is morally incorrect.<sup>12</sup> It is not for IFAs to decide the guilt or innocence of the alleged perpetrator. Rather it is the court who decides this based on the facts presented and the law. IFAs assist the court in reaching its decision by providing it with information regarding what happened based on the facts and using their financial and investigative skills. To help the IFA do her or his job in an in-depth manner, it is important to have “a keen understanding of human nature and behavior”.<sup>13</sup>

---

<sup>11</sup> Smedmor, Charles, Interview of May 17, 2017.

<sup>12</sup> Porter, Scott, Interview of May 12, 2017.

<sup>13</sup> Allan, Roddy, “The human face of fraud,” CAmagazine, May 2003, 39.

### **Types of fraudsters**

There are two types of white-collar criminals: those who do it because it is who they are and that is how they go about getting their needs met (the antisocial personality types – the Madoffs<sup>14</sup> of the world) and those who just fall into it (the average person who would never be suspected of perpetrating a fraud).<sup>15</sup> This paper will explore the two types and present effective ways for organizations to protect themselves against both types.

### **Definitions**

To better understand the topic of the patterns in the mindset and motivation of the white-collar criminal, definitions of the words in the topic and related words were researched to ensure the reader had a better understanding of the meaning within the context of white-collar crime.

### **Pattern**

The word pattern is a noun and is defined as follows: *“A distinctive style, model or form; a combination of qualities, acts, tendencies, etc., forming a consistent or characteristic arrangement; an original or model considered for or deserving of imitation.”*<sup>16</sup>

---

<sup>14</sup> Doyle, John, “Wizard of Lies presents a chilling portrait of a monstrous Madoff”, The Globe and Mail, May 19, 2017. (“Madoff is responsible for the largest fraud scheme in American history”).

<sup>15</sup> Smedmor, Charles, “The Psychology of Fraudsters”, Introduction to Investigative Related Matters, March 8, 2016. Discussed in Class 8.

<sup>16</sup> Dictionary.com accessed online April 23, 2017.

The following definition of the word pattern is more compelling for this paper:

*“Consistent and recurring characteristic or trait that helps in the identification of a phenomenon or problem, and serves as an indicator or model for predicting future behaviors.”*<sup>17</sup>

There is much to learn about a person or group of people in observing their patterns of behavior. Humans are creatures of habit. Their actions may indicate much about what is prevailing for them. Psychologists and psychiatrists study human behavior which is based on their patterns of conduct.

### **Mindset**

The word mindset is a noun and is defined as follows: *“An attitude, disposition, or mood. An intention or inclination.”*<sup>18</sup>

And it is also defined as: *“The established set of attitudes held by someone. ‘The region seems stuck in a medieval mindset.’”*<sup>19</sup>

An individual’s attitude and intentions speak to who they are as people. Attitude and intentions define one’s personality.

---

<sup>17</sup> BusinessDictionary.com accessed online April 23, 2017.

<sup>18</sup> Dictionary.com accessed online April 23, 2017.

<sup>19</sup> English Oxford Living Dictionaries accessed online April 23, 2017.

Mr. Charles Smedmor made the following comment at the beginning of the DIFA class he taught on March 8, 2016:

*“We (IFAs) all have the accounting and financial skills but what’s very important is to have the understanding of the behavior behind the people. When I am up in the morning and eating my Cheerios, and reading the Globe or Star I am thinking fraud with my Cheerios. Not how to commit it but how to investigate it, how it happens and so on. And I know that there are people in Toronto who are also eating their Cheerios and all across Canada and all across the world who are eating their Cheerios and thinking about how they can commit fraud.”*<sup>20</sup>

This speaks to the mindset or intention of both types of white-collar criminals: the one who makes fraud their career and the one who eventually slides into committing fraud.<sup>21</sup>

It has been found that most white-collar crime is perpetrated by individuals who have never committed a crime before. In ACFE’s 2016 Global Fraud Study it is noted that *“more than 88% of the background checks conducted did not reveal any prior misconduct or red flags, which underscores our finding that the majority of perpetrators are not career criminals – that is, they are usually first-time offenders... and typically do not take a job with the intention to defraud their employer.”*<sup>22</sup>

---

<sup>20</sup> Smedmor, Charles, “The Psychology of Fraudsters”, Introduction to Investigative Related Matters, March 8, 2016. Quote taken from Class 8.

<sup>21</sup> Smedmor, Charles, “The Psychology of Fraudsters”, Introduction to Investigative Related Matters, March 8, 2016. Quote taken from Class 8.

<sup>22</sup> ACFE, 45.

## **Motivation**

Motivation is what IFAs like to refer to as pressure. During an investigation, an IFA would ask themselves what pressures were being faced by the white-collar criminal that may have caused him or her to perpetrate a crime.

The word motivation is a noun and is defined as follows: *“1. The act or an instance of motivating, or providing with a reason to act in a certain way: I don’t understand what her motivation was for quitting her job. 2. The state or condition of being motivated or having a strong reason to act or accomplish something: we know these students have a strong motivation to learn. 3. Something that motivates; inducement; incentive: Clearly the company’s long-term motivation is profit.”*<sup>23</sup>

Motivation is also defined as follows:

*“Internal and external factors that stimulate desire and energy in people to be continually interested and committed to a job, role or subject, or to make an effort to attain a goal. Motivation results from the interaction of both conscious and unconscious factors such as the (1) intensity of desire or need, (2) incentive or reward value of the goal, and (3) expectations of the individuals and of his or her peers. These factors are the reasons one has for behaving a certain way. An example is a student that spends extra time studying for a test because he or she wants a better grade in the class”.*<sup>24</sup>

---

<sup>23</sup> Dictionary.com accessed online April 23, 2017.

<sup>24</sup> BusinessDictionary.com accessed online April 23, 2017.



Or quite simply put motivation is “*a need or desire that energizes or directs behaviour*”.<sup>25</sup>

Motivation can further be broken down into intrinsic and extrinsic motivation. Intrinsic motivation occurs when an individual is moved to conduct themselves in a certain way and do it completely to satisfy a need within themselves.

Extrinsic motivation is when individuals conduct themselves in a certain manner to attain a benefit that is being promised to them by someone for a type of behavior. The motivation may be to benefit from a positive reward and it may be to avoid a potential penalty or punishment.<sup>26</sup>

This distinction in understanding what may motivate a white-collar criminal is critical to understand and is discussed at length later in this paper.

### **Greed**

The perpetration of a white-collar crime is more complex than the employee simply misappropriating asset(s), or misrepresenting the financial statements or colluding with customers and vendors. These acts are the results of sophisticated schemes conjured up by intelligent people.<sup>27</sup> White-collar crime cannot simply be explained away because of greed. However, many people believe that only greed is what propels people to commit fraud acts.

---

<sup>25</sup> Myers, David G., “Psychology, Tenth edition in Modules”, (New York; Worth Publishers, 2013), 418.

<sup>26</sup> Myers, 302.

<sup>27</sup> Cormier, Gillian, “Sponagle Money”, [allnovascotia.com/news?story\\_ud=82439&lineup=0](http://allnovascotia.com/news?story_ud=82439&lineup=0), May 10, 2017.

Field Code Changed

The following definition speaks to the complexity of greed:

*Greed is "...a selfish want for something beyond one's need. Typically, greed is associated with wealth and power.*

*Greed describes a desire to have or acquire something that is not necessary for one's own survival but also to the detriment of another. In addition, greed usually describes someone that cannot have enough. The more he or she attains, the more he or she wants and is never satisfied. Potential consequences of unchecked greed include bankruptcy, destitution and even criminal punishment.*

*In American business, greed is most often associated with investment scam and tax evasion.*"<sup>28</sup>

We live in a consumerist society where we are encouraged to have more than we need and there are societal pressures that are present that equate success with having more. Buying into consumerism affects some individuals more than others. It could be argued that it is the mindset of the individual or the psychological makeup of the individual that impacts how they define success and how they buy into consumerism.

---

<sup>28</sup> Businessdictionary.com accessed April 29, 2017.

*Greed is more of a “label” and does not constitute a valid, causative scientific explanation and is certainly not the final answer.*<sup>29</sup>

### **Organizational structure**

Humans accomplish their goals by organizing, and organizations have come into being to accomplish larger goals. In the corporate world, we organize to succeed in accomplishing the organization’s mission according to its values. Organizations in the corporate world are also tasked with creating wealth for its shareholders. Each of these organizations requires a leader. Individuals are hired who are accomplished in taking organizations to greater levels of efficiency and profitability. Leaders, managers and employees are hired by organizations to ensure their missions are accomplished, trusting that individual loyalty will be to the organization’s goals and values.<sup>30</sup>

### **Employer-employee relationship**

The employer-employee relationship is one where the employee agrees to serve the employer in furthering the organization’s goals<sup>31</sup> in exchange for monetary and non-monetary benefits. The employer-employee relationship is based on trust. This is more so the situation, the further up the corporate ladder that the employee climbs. Of course, in a perfect world, this trust would be respected; however, this is not always the case.

Leaders and managers are entrusted with access to assets and overrides to corporate controls relative to employees in lower level positions. This situation is taken advantage of and at a more alarming rate than ever before. Our business leaders are expected to be

---

<sup>29</sup> Ramamoorti, Sridhar, “Bringing Freud to Fraud”, Journal of Forensic & Investigative Accounting, Vol.6, Issue 1, January – June 2014, 53.

<sup>30</sup> Hodgkinson, Christopher, “Administrative Philosophy”, (Great Britain; Redwood Books Ltd, 1996), 195.

<sup>31</sup> Ramamoorti, Sridhar, “Bringing Freud to Fraud”, 47.

Field Code Changed

intelligent, charming, strategic and persuasive which are also sometimes the same traits of a successful fraudster.<sup>32</sup> This is also the same of our political leaders.<sup>33</sup>

### **White-collar criminal**

The phrase white-collar criminal was introduced by American sociologist Edwin Sutherland. He defined these criminals or organizations as those who commit illegal acts without the use of violence against their organizations and other organizations, and who are of high standing in their personal lives and within the organizations they work for.<sup>34</sup> What is most out of character, is that these criminals commit these crimes while performing legitimate work in their capacity as trusted employees of the organizations.<sup>35</sup> This definition has been tested and still stands today as the most comprehensive description of what is meant by the phrase white-collar criminal.<sup>36</sup>

The FBI describes white-collar crime as being “characterized by deceit, concealment, or violation of trust and is not dependent on the application or threat of physical force or violence. The motivation behind these crimes is financial—to obtain or avoid losing money, property, or services or to secure a personal or business advantage”.<sup>37</sup>

---

<sup>32</sup> Hodgkinson, 197.

<sup>33</sup> Comment made by Jarrett Reaume, May 30, 2017.

<sup>34</sup> Sutherland, Ewin H., “White-Collar Criminality”, American Sociological Review, Volume 5, Number 1, February 1940. 1-12.

<sup>35</sup> Eaton, Tim V., “A Criminological Profile of White-Collar Crime”, The Journal of Applied Business Research, Volume 32, Number 1, January/February 2016, 129.

<sup>36</sup> Eaton, 129.

<sup>37</sup> [www.fbi.gov/investigate/white-collar-crime](http://www.fbi.gov/investigate/white-collar-crime) Accessed May 9, 2017.

Field Code Changed

### **Occupational fraud**

Occupational fraud includes all crimes perpetrated by employees against the organization that they work for.<sup>38</sup> This paper specifically focuses on white-collar crime known as crime perpetrated by managers and executive/owners.

### **White-collar crime as an aspect of fraud**

Fraud is defined as an *“act or course of deception, an intentional concealment, omission, or perversion of truth, to (1) gain unlawful or unfair advantage, (2) induce another to part with some valuable item or surrender a legal right, or (3) inflict injury in some manner. Willful fraud is a criminal offense which calls for severe penalties, and its prosecution and punishment (like that of a murder) is not bound by the statute of limitations. However, incompetence or negligence in managing a business or even a reckless waste of firm's assets (by speculating on the stock market, for example) does not normally constitute a fraud.”*<sup>39</sup>

When an employee commits a fraud they purposely trick their employers out of an asset that belongs to the organization and their actions cause harm to the organization.<sup>40</sup>

Fraud can occur at all levels of an organization. Different terms are used to describe fraud perpetrated at different levels of the organization. The term blue-collar crime is typically associated with fraud which is conducted at non-managerial levels of the organization.

---

<sup>38</sup> Ramamoorti, “Bringing Freud to Fraud”, 49.

<sup>39</sup> <http://www.businessdictionary.com/definition/fraud.html>

<sup>40</sup> Managing the Law, Fourth Edition, McInnes, Kerr, Vanduzer, P676.

White-collar crimes are associated with individuals who commit fraud and are employed in management or at the executive level. Owners of organizations who perpetrate fraud are also described as white-collar criminals. Reference is sometimes made to pink-collar crime which refers to employment fraud perpetrated by women.

**Example of blue-collar crime**

The following is an example of a blue-collar crime. The perpetrator worked at the Royal Canadian Mint and his story is an attestation to the creativity of humans. This story is an excellent example of a red flag that was ignored by other employees. The perpetrator was known to be the only one to set off the metal detector the most of all employees. Further investigation with hand wands could not detect where he had hidden the gold.

Leston Lawrence was employed by the Royal Canadian Mint and was convicted of theft at the age of 35. He had been employed at the Mint for approximately eight years. He worked as an employee who purified gold and from the description given *“they (the Mint) had pails of gold just sitting around and people could walk by and actually just pick things out of them.”*. There was no security camera where he worked and there were many times when he worked alone.

His job was to make pucks of gold which he stole. He did so by placing them in his rectal cavity. He was caught when a bank employee suspected two cheques that he cashed from Ottawa Gold Buyers that totalled \$15,200.00. The teller questioned him on what the payments were from and he admitted that they were from selling gold nuggets. The bank tipped off the police who began an investigation. The judge ruled that he had stolen 22 pucks worth approximately \$165,451.14. Leston Lawrence is serving a sentence of 30-

Field Code Changed

months at the end of which he must pay back \$190,000.00 in restitution. If he does not do so within three years he will be sent back to prison.

At the time of his arrest he owned a boat in Florida and a house in Jamaica. His motivation for stealing the pucks appears to be to improve his lifestyle. His mindset probably led him to believe he would never be caught.<sup>41</sup>

### **Types of white-collar crimes**

White-collar crimes are usually categorized as follows:

1. Asset misappropriation of cash and inventory
2. Financial statement fraud and
3. Corruption<sup>42</sup>

These are in no particular order and are equally important to the fraud investigator and organizations who are potential victims of white-collar crimes. Asset misappropriation is the most common way that white-collar criminals perpetrate their crime.

### **Fraud models**

In analysing fraud, fraud investigators refer to various models that explain fraudulent behavior. These models help to follow through on fraudsters' train of thought in assessing fraud risk. Three of those models are:

---

<sup>41</sup> The Canadian Press "Mint employee who hid stolen gold in rectum gets 30-month sentence", The Globe and Mail, originally published February 2, 2017 at 10:23AM EST and updated February 2, 2017 12:36 PM EST.

<sup>42</sup> ACFE, 11.

Field Code Changed

1. The Fraud Triangle
2. The Fraud Diamond
3. The “GONE” theory of Fraud

These models are taught to IFAs as what underlies the fraudster’s predominant patterns.



### **The Fraud Triangle**

The fraud triangle was developed by Dr. Donald R. Cressey who was an American sociologist and criminologist. He introduced the fraud triangle in his book titled “Other People’s Money” (Montclair: Patterson Smith, 1973).<sup>43</sup> It is a model which explains what causes someone to commit white-collar crime.

Cressey wrote *“Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable (pressure and concealment), are aware this problem can be secretly resolved by violation of the position of financial trust (opportunity), and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves (rationalizations) as trusted persons with their conceptions of themselves as users of the entrusted funds or property”*.<sup>44</sup>

The three components of the Fraud Triangle are pressure, opportunity and rationalization.

The fraud triangle looks as follows<sup>45</sup>:

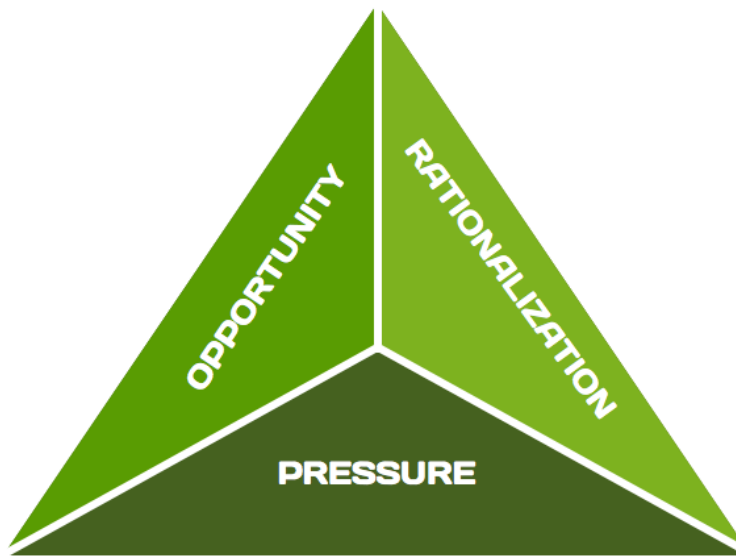
---

<sup>43</sup>Cressey, Donald R., “Other People’s Money”, (Montclair: Patterson Smith), 1973.

<sup>44</sup> Cressey, 30.

<sup>45</sup>[https://www.procurious.com/blog-content/2016/02/Fraud\\_Triangle.jpg](https://www.procurious.com/blog-content/2016/02/Fraud_Triangle.jpg)

## The Fraud Triangle



Under Cressey's model, pressure is what motivates the white-collar criminal to consider committing the fraudulent act. An example may be an employee that has a substance abuse problem and he or she is ashamed of sharing this with their family and friends. The employee may believe that the addiction is temporary. Once the addiction spirals out of control, his or her need for additional cash above and beyond what they earn, may cause them to seek illegal ways to resolve their need. The employee's work situation may provide an opportunity for the employee to get access to cash. Once the cash is obtained their pressure is relieved until the next time. The opportunity to perpetrate the crime may present itself in that there are weak internal controls at their place of employment. For

Field Code Changed

instance, segregation of duties may be minimal. The employee may complete deposits for the company and reconcile the bank statement. Their employer may not review the bank statements because the employee has been in their employ for a long period of time and is trusted. This creates the opportunity for the employee to defraud their employer. The rationalization, or the story the employee tells themselves may be that “this is only temporary and I will pay it back”.<sup>46</sup> Of course, this usually does not happen in the case of addictive behavior. The fraudulent behavior may continue until the employee is caught or until they leave their employment.

Cressey is one of the founding fathers of ACFE.<sup>47</sup> The Association of Certified Fraud Examiners (ACFE) presents The Cressey Award annually for lifetime achievement in the advancement in detecting and deterring of fraud. The Canadian Auditing Standards indirectly refers to the fraud triangle by listing the three components of fraud as identified by Cressey under its section on Characteristics of Fraud.<sup>48</sup>

### **The Fraud Diamond**

The Fraud Diamond is a model put forward by David T. Wolfe and Dana R. Hermanson in 2004.<sup>49</sup> Their model adds a fourth element to the Fraud Triangle: capability. Their model evolved after the Enron accounting scandal of 2001 and the Worldcom accounting

---

<sup>46</sup> [www.acfe.com/fraud-triangle.aspx](http://www.acfe.com/fraud-triangle.aspx) accessed May 14, 2017.

<sup>47</sup> [www.acfe.com/awards-recognition.aspx](http://www.acfe.com/awards-recognition.aspx) accessed May 14, 2017.

<sup>48</sup> CICA, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”. Assurance, Canadian Auditing Standards, CAS 240. Application and Other Explanatory Material, Characteristics of Fraud Paragraph A1

<sup>49</sup> Wolfe, David T., “The Fraud Diamond” CPA Journal, Hermanson, Dana R., 74.12 (2004), 38-42.

scandal of 2002. These two cases resulted in the United States implementing stricter laws and enforcement of those laws.

Wolfe and Hermanson believed that these scandals may not have taken place to the extent that they did if Jeff Skilling and Bernie Ebbers, respectfully, were not at the helm of those organizations. They argue that these two individuals had not only the pressure and opportunities to commit the fraud, but that they also had the smarts, personality, courage and determination to accomplish what they did. These individuals could sense the opportunities and took advantage of them repeatedly. Capability adds another dimension to the Fraud Triangle. This is relevant to white-collar crime as the individuals in these positions are more educated than most in the organization. More will be said about education later in the paper.

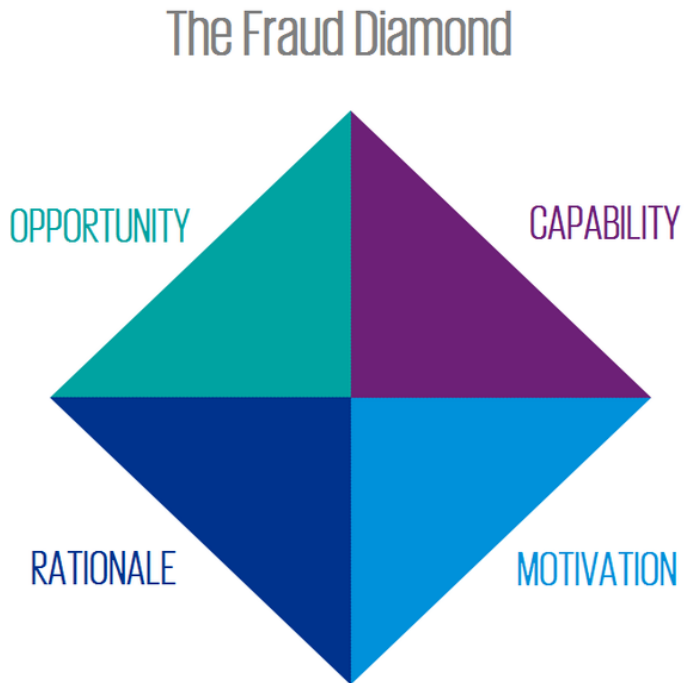
In their paper, Wolfe and Hermanson identified five personality traits that are common in perpetrators, in particular where the employee has stolen significant amounts of money or have been with the organization long term. They are:

1. position within the organization
2. level of intelligence
3. a strong ego or excessive confidence
4. a convincing demeanor
5. and an ability to lie with ease.<sup>50</sup>

---

<sup>50</sup> Wolfe, David T., 38-42.

See the diagram below for an example of the fraud diamond.<sup>51</sup>



The Fraud Diamond adds another dimension to consider in the context of how an employee may go about perpetrating a fraud. Capability is an important attribute of a white-collar criminal and this is implied in Cressey's fraud triangle model.

---

<sup>51</sup> <http://www.vyrostlijsme.cz/data/pluginbrowser/cache.php?src=/AKI%2Ffraud-diamond.png&w=660&h=780> accessed May 14-2017.

### **GONE Theory of Fraud**

The GONE theory of fraud highlights that the perpetrator has an expectation that he or she will get away with the crime. This theory was developed by Jack Bologna and Bob Lindquist.<sup>52</sup> The GONE stands for the following:

G – Greed

O - Opportunity

N – Need, Nerve and/or Narcissism

E – Expectation that the possibility of being caught will be low.

The premise behind the GONE theory is that when these four factors are present then it is an opportune moment for a fraudster to perpetrate his or her crime. And that the money or assets will disappear. The assets will be GONE.

For this paper reference will be made to the Fraud Triangle as it is the first model that was used and continues to be referred to by fraud investigators and ACFE. The two other models add important elements that are not overtly recognized by the Fraud Triangle.

It is important to note that other fraud models do exist. For example, the A.B.C.'s of behavioral forensics model also known as the Bad Apple, Bad Bushel and Bad Crop Syndrome was developed by Ramamoorti, Morrison, Koletar and Pope.<sup>53</sup>

---

<sup>52</sup> This theory was presented in Class 1 and Class 7 of the Introduction to Investigative and Related Matters.

<sup>53</sup>Ramamoorti, Sridhar, "A.B.C.'s of Behavioral Forensics," (New Jersey; John Wiley & Sons, Inc., 2013), 214

### **Personality disorders**

Personality disorders are difficult to understand without first understanding how psychologists and psychiatrists view a healthy functioning personality. It is of interest to understand this, if we are to have an appreciation of the complexities of human beings, and their behavior. An employee's personality may impact their attitude towards their work and their mindset and motivation in general.

There are also those individuals who whose personalities deviate from what is considered a healthy functioning personality. These deviations are known as personality disorders. Before explaining personality disorders that are of interest to IFAs a definition of personality will be given.

### **Definition of personality**

The American Psychological Association describes personality as referring "to individual differences in characteristic patterns of thinking, feeling and behaving. The study of personality focuses on two broad areas: One is understanding individual differences in particular personality characteristics, such as sociability or irritability. The other is understanding how the various parts of a person come together as a whole".<sup>54</sup>

A search of the Diagnostic and Statistical Manual of Mental Disorders<sup>55</sup> does not provide a concise definition of personality. Nor is the term defined in the introductory psychology textbook referred to for this research paper.<sup>56</sup> From searching the internet there does not

---

<sup>54</sup> <http://www.apa.org/topics/personality/> accessed May 15, 2017.

<sup>55</sup> DSM-5, American Psychiatric Association.

<sup>56</sup> Myers.

Field Code Changed

seem to be agreement in psychology or psychiatry as to what the definition of personality is.

The personality of an individual, in some cases, refers to how an individual will function and respond during the normal course of their life. Personality is the sum of their consistent display of behaviors and attitudes.

The DSM-5 does provide a clear description of what someone with no or little impairment to the functioning of their personality would be like.<sup>57</sup> A baseline of a healthy personality identity is described as the person having an awareness of the fact that they are unique and that they are able to establish boundaries that are appropriate for themselves and specific to the roles they fill in their lives. They are able to view themselves positively on a consistent basis and have good self-esteem and they are also able to self-assess themselves accurately. This will be discussed further in the description of the narcissist. The narcissist cannot assess themselves accurately and are over confident and end up exaggerating themselves or having grandiose opinions of themselves.

A person with a healthy baseline identity is comfortable with their full emotional range and can manage their emotions. An example of an individual who cannot tolerate their full emotional range is someone who has emotional outbursts when they experience their emotions. They cannot contain their anger. They expend their emotional energy and

---

<sup>57</sup> DSM-5, American Psychiatric Association, 775.



sometimes do so inappropriately. They are not capable of being with emotions that arise for them. They also cannot analyze them or understand them before they take action. In other words, their emotion intelligence is limited.

Another baseline for the consideration of a healthy personality is an individual's ability to self-direct themselves. To further expand on this, the individual has a grasp on what they are capable of and as such set realistic goals for themselves to achieve. They also behave in a suitable manner which is a result of following socially acceptable ways of behaving such as "I want to be the best that I can and as such will not participate in war". Because they do this, they are more able to lead fulfilling lives. As well, the person has the capacity to think deeply about their internal experience.

In addition to the above, the healthy personality is able to relate well to another individual's circumstance and reasons for behaving the way they do. They are also able to be in disagreement with what another person's beliefs. And as a part of being able to empathize with others, they understand that their behaviors and decisions will impact others and how.

The healthy personality is also able to achieve intimacy on many levels. The person does so by having and nurturing many fulfilling and lasting bonds with others, in both one-on-one and group situations. In addition, the individual also seeks out and relates to others closely by having several relationships that are genuinely kind and which portray a healthy dependence and interconnectedness. The individual makes an effort to be

Field Code Changed

cooperative with others and to ensure that their relationships are interdependent and benefit all involved. When in relationship, the individual is able to react to what and how others feel and behave.

The individual's identity, ability to self-direct and empathize, and need for intimacy are synchronized and harmonized and enable the individual to fulfill their lives on a satisfactory level. In contrast to this, and of interest to IFAs, are personality disorders which underlie behaviors that may motivate white-collar criminals to defraud their organizations and their employers.

**Personality disorders pertinent to understanding white-collar crime**

According to the DSM-5 there are 10 specific personality disorders. A personality disorder is defined as *“an enduring pattern of inner experience and behavior that deviates markedly from the expectations of the individual's culture, is pervasive and inflexible, has an onset in adolescence or early adulthood, is stable over time, and leads to distress or impairment”*.<sup>58</sup>

These disorders are known to negatively influence an individual's ability to do well in their work and social lives. The most commonly known personality disorders that seem to underlie many of the personalities of white-collar criminals are the antisocial personality disorder, the narcissistic personality disorder, and the histrionic personality disorder. Individuals with these disorders may present as theatrical, emotional or unpredictable in

---

<sup>58</sup> DSM-5, 645.

their behavior.<sup>59</sup> What is interesting to note is that the tendencies of individuals with antisocial disorder lessen as they become older.<sup>60</sup> Whereas white-collar criminals seem to be more likely to commit their crimes in the later stages of life. Most commonly between the ages of 40 – 55 and into their 60s and 70s. More will be said about this later in the paper.

The antisocial personality disorder's most common interactive style is identified by the individual having no regard for other's feelings and being cruel towards others. The narcissist's most common interactive style is their grandiosity, and the histrionics' most common interactive style is flirtatious.

### **Antisocial personality disorder**

Individuals who suffer from antisocial personality disorder are known to abuse and ignore the rights of others. The antisocial personality is also known as psychopathy or sociopathy.

This personality disorder is the one that has been studied the most and is probably the most difficult to understand because the person is non-emotional: they cannot feel remorse. From the research, it seems that their feeling level is lesser or shallower when compared to others who do not suffer from this disorder.<sup>61</sup> These individuals also are known to not have a conscience which makes them fearless.<sup>62</sup>

---

<sup>59</sup> DSM-5, Page 646.

<sup>60</sup> DSM-5, Page 647.

<sup>61</sup> Meyers, 668-670.

<sup>62</sup> Hare, Robert D., PhD, "Without Conscience" (New York: The Guilford Press, 1993), 107.

According to the DSM-5 this personality disorder can be diagnosed as early as the age of 15 which means that there may be valuable information that can be obtained about an employee by investigating their teenage years. According to the DSM-5, for an individual to be diagnosed as being antisocial three or more of the following must be present:

1. Failure to conform to social norms with respect to lawful behaviors, as indicated by repeatedly performing acts that are grounds for arrest.
2. Deceitfulness, as indicated by repeated lying, use of aliases, or conning others for personal profit or pleasure.
3. Impulsivity or failure to plan ahead.
4. Irritability and aggressiveness, as indicated by repeated physical fights or assaults.
5. Reckless disregard for safety of self or others.
6. Consistent irresponsibility, as indicated by repeated failure to sustain consistent work behavior or honor financial obligations.
7. Lack of remorse, as indicated by being indifferent to or rationalizing having hurt, mistreated, or stolen from another.

It is important to keep in mind that not all antisocial personalities are white-collar criminals, however deceit and manipulation are key components of this personality disorder.<sup>63</sup> Because of their lack of emotion their mindset may be that everyone is out for themselves which rationalizes their behavior to behave in a manner that violates other's feelings, rights and needs. They are known to abuse alcohol. Those individuals who have

---

<sup>63</sup> DSM-5, Page 659.

antisocial personality disorder and are deceitful, do so to achieve financial benefit, power or to fulfill some other need.<sup>64</sup> Research also indicates that those with antisocial personality would not be able to commit white-collar crime without also being intelligent (capability). In other words, not all antisocial personalities are intelligent.

Research indicates that the antisocial personality type's lessen as they grow older.<sup>65</sup>

“On average, the criminal activities of the psychopath remain at a high level until around the age of forty, after which they decrease sharply... The decrease is more dramatic for nonviolent offenses than violent ones.”<sup>66</sup>

However, it is important to note that this is not the case for all antisocial personality types. They continue to behave in antisocial ways well into their old age.<sup>67</sup> This information reveals that it is not this personality type which accounts for all white-collar crime in the ages between 40 and 55 and which are perpetrated mostly by men. There are other factors which are contributing to this phenomenon.

### **Narcissistic personality disorder**

Narcissism is noticeable in individuals because their behavior exudes a sense of superiority over others. However, an introvert may also have this attitude and keep it more to themselves. They have a deep need to be admired, and they are unable to

---

<sup>64</sup> DSM-5, Page 663.

<sup>65</sup> Hare, 97-98.

<sup>66</sup> Hare, 97.

<sup>67</sup> Hare, 98.

empathize with others. They also portray themselves as being smarter than others which leads them to think they can be above the law.

According to the DSM-5, a narcissist must exhibit at least five or more of the following traits to be diagnosed with this personality disorder:

1. Has a grandiose sense of self-importance (e.g. exaggerates achievements and talents, expects to be recognized as superior without commensurate achievements).
2. Is preoccupied with fantasies of unlimited success, power, brilliance, beauty, or ideal love.
3. Believes that he or she is “special” and unique and can only be understood by, or should associate with, other special or high-status people (or institutions).
4. Requires excessive admiration.
5. Has a sense of entitlement (i.e., unreasonable expectations of especially favorable treatment or automatic compliance with his or her expectations).
6. Is interpersonally exploitative (i.e. takes advantage of others to achieve his or her own ends).
7. Lacks empathy: is unwilling to recognize or identify with the feelings and needs of others.
8. Is often envious of others or believes that others are envious of him or her.
9. Shows arrogant, haughty behaviors or attitudes.<sup>68</sup>

---

<sup>68</sup> DSM-5, 667-670.

You may experience an individual with a narcissistic personality disorder when you fail to praise them and you can notice an air of disappointment in them because you didn't recognize their accomplishments with the same regard they do. Narcissists also may compare themselves to people who are famous or who have special rights.

Their sense of entitlement can cause them great trouble when coupled with the fact that they cannot empathize with others. This may cause them to take advantage of others and will not always be done so consciously.<sup>69</sup> Their relationships are formed with a person if the narcissist knows they can further their situation and their self-assurance. And it is such because they rely on others for admiration. These individuals may perceive others who express emotion as being vulnerable and weak.

### **Histrionic personality disorder**

A person with histrionic personality disorder is exceedingly emotional and seeks attention. The person must have five or more of the following characteristics to be diagnosed with the disorder:

1. Is uncomfortable in situations in which he or she is not the centre of attention.
2. Interaction with others is often characterized by inappropriate sexually seductive or provocative behavior.
3. Displays rapidly shifting and shallow expression of emotions.
4. Consistently uses physical appearance to draw attention to self.
5. Has a style of speech that is excessively impressionistic and lacking in detail.

---

<sup>69</sup> DSM-5, 670.

6. Shows self-dramatization, theatricality and exaggerated expression of emotion.
7. Is suggestible (i.e. easily influenced by others or circumstances).
8. Considers relationships to be more intimate than they actually are.<sup>70</sup>

These individuals are not patient in their approach to life and will quickly become frustrated if they do not get what they want right away. They are also quick to start projects or friendships but are also known to lose interest quickly because they desire the excitement of newness.

What is important for IFAs to know is that this personality disorder can be present in both a sociopathic and narcissistic personality. Aspects of the histrionic personality disorder may mask the sociopath's and narcissist's personality in that they may appear emotional.

Jonathan Todd Schwartz defrauded Alanis Morissette of approximately \$5 million US over the course of a three-year period beginning in May 2010 and ending in January 2014.<sup>71</sup> He worked for GSO Business Management (GSO), a company known for managing famous entertainers' money. Famous actress and singer Beyoncé Knowles was one of his former clients as well.<sup>72</sup> Fortunately for Morsette, her losses were covered by GSO. Schwartz was earning a reported \$1.2 million per year but admitted to having a gambling problem. He was also known for living an extravagant lifestyle and it was reported that he spent \$50,000 on a trip to Bora Bora and that he had a gambling debt of

---

<sup>70</sup> DSM-5, 667.

<sup>71</sup> Melley, Brian, "Alanis Morissette's ex-manager gets six years for stealing \$7-million", *The Globe and Mail*, (May 3, 2017 6:44 PM EDT and updated May 3, 2017 11:18 PM EDT).

<sup>72</sup> Melley, Brian "Alanis Morissette's ex-business manager admits to stealing \$4.8 million from singer", *The Associated Press*, *National Post* (January 19, 2017).



\$75,000 that he owed to a Bahamas casino.<sup>73</sup> His method of concealment was to expense the money as Morissette's sundry or personal expenses.<sup>74</sup>

He was emotional in his apology and expressed remorse, recognizing that he had done wrong and is now spending time in a federal US prison. He was 47 at the time of his sentencing. It was noted that Mr. Schwartz became emotional and wept in court but this was only after he realized he would not get away with his actions.<sup>75</sup>

Individuals who suffer from both sociopathic personality disorder and histrionic personality disorder will be more prone to exhibiting a likelihood of acting before thoroughly thinking their actions and will not consider what impact their actions will have on others. They are often known to be shallow. They are also more prone to being bored and constantly looking for excitement in their lives. They will also be attractive and enticing and deceitful. What differentiates the histrionic from the sociopath is that the histrionic manipulates others for love and emotional attention whereas the sociopath does so for financial or material reward or power.<sup>76</sup>

### **Diagnostic labelling**

Labelling or diagnosing of personality disorders are not to be taken lightly. This is the job of experts in the fields of psychology and psychiatry. IFAs are trained to assist the court with matters related to their financial expertise. The above information was presented to

---

<sup>73</sup> Melley, National Post (January 19, 2017).

<sup>74</sup> Melley, National Post (January 19, 2017).

<sup>75</sup> Melley, The Globe and Mail, (May 3, 2017 6:44 PM EDT and updated May 3, 2017 11:18 PM EDT).

<sup>76</sup> DSM-5, Page 669.

give a better understanding aspects of these disorders and how they may impact human behavior.

Not all people with personality disorders are fraudsters. It is important to separate the behavior out from the person.<sup>77</sup> Research indicates that there are psychopaths who manage their disorder with therapy and who live normal lives and do not perpetrate crime.

Fraudsters are looking after themselves. They are acting selfishly and irresponsibly. And they will not limit themselves in how they take advantage of their situation to benefit themselves and may perpetrate fraud in several different ways to have their needs met. *They will steal from their employers whenever the opportunity presents itself.*<sup>78</sup>

The knowledge of what personality disorders are helps the IFA and employers to understand some of the motivations and mindset of the white-collar criminal.

### **Fraudster mindset**

#### **Tenure with the organization**

What causes individuals to want to break the rules to get what they want or need? The research indicates that most individuals who perpetrate a white-collar crime have been with the organization for a long period of time. The Australian Institute of Criminology determined that “... *the majority of suspects were employed for more than four years.*”<sup>79</sup>

---

<sup>77</sup> Smedmor, Charles, Interview of May 17, 2017.

<sup>78</sup> ACFE, 13.

<sup>79</sup> Smith, Russell G., “Fraud within the Commonwealth”, Australian Institute of Criminology, March 2017. 8.

Field Code Changed

They have had an opportunity to observe and understand how the organization works. The longer they are with an organization the more time they have had to understand the controls that are in place and to determine where vulnerabilities exist. They are also familiar with their supervisors and other employees, their personalities, how they work and what their blind spots are. If a pressure exists that the white-collar criminal feels can be solved by taking advantage of their employer or the organization, they will do so when an opportunity presents itself.

#### **Expectation of white-collar criminal**

The white-collar criminal has an expectation they will not be caught and therefore are willing to take the risk.<sup>80</sup> It is as if they are deceiving themselves of the truth. This may be perceived as a rationalization of their behavior. The perpetration of the crime could very well lead them to being caught and charged with a crime that could destroy their lives. In Canada, it is felt that we do not have a strong enough stance against white-collar criminals as compared to the US.<sup>81</sup> The research indicates that “...*white-collar crime is (seen as) lucrative, (and) the chances of getting caught are minimal, and the penalties are often trivial.*”<sup>82</sup>

This paper did not research the differences in penalties for white-collar crime between Canada and the United States. In the following case, it appears that the perpetrator was dealt with appropriately.

---

<sup>80</sup> Smith, 20.

<sup>81</sup> Confidential contribution from interviewee.

<sup>82</sup> Hare, 121.

Mr. Sponagle, 52 years of age, who pleaded guilty to one count of fraud, was sentenced in early May 2017 in a Nova Scotia Provincial Court, to a 12-month probation and \$1.1 million in restitution. If he is unable to pay the restitution within a five-year period, he may be subject to additional jail time of up to five years. Judge Ann Derrick commented that Mr. Sponagle “*has paid a hard price for his greed, spending 19 and a half months of actual time in one of the world’s worst prisons*”.<sup>83</sup>

Mr. Sponagle who is an Upper Vaughan, Nova Scotia, resident was the owner of Jabez Financial Services, an investment firm which had an office in Windsor, Nova Scotia. He was also the mastermind behind what is now known to be the largest Ponzi scheme in Nova Scotia’s history. He managed to raise \$4.3 million in investment funds from 201 investors mostly from Nova Scotia. He did so by promising a 20% return on investment which should have raised a red flag for potential investors.

Of the funds that he raised, approximately \$1.2 million was invested for the benefit of the investors. The remainder was used by him for personal purposes to purchase vehicles, real estate, travel and to give money to friends and family and charities. He also squandered away the remaining cash which led to a world-wide hunt involving lawyers in eight countries.<sup>84</sup>

---

<sup>83</sup> Cormier, Gillian, “Sponagle Avoided Prison on Panama Jail Time”, [allNovaScotia.com/news?story\\_id=82389&lineup=0](http://allNovaScotia.com/news?story_id=82389&lineup=0), May 9, 2017.

<sup>84</sup> Cormier, Gillian, “Sponagle Money”, [allnovascotia.com/news?story\\_ud=82439&lineup=0](http://allnovascotia.com/news?story_ud=82439&lineup=0), May 10, 2017.

Field Code Changed

Most of the investors that Mr. Sponagle defrauded were members of the Rock Church in Sackville, Nova Scotia. Coincidentally, the investment company was named after a biblical persona who is associated with wealth.

Investors have been paid 26 cents on their investment dollar by Receiver, PriceWaterhouse Coopers (PwC). PwC is uncertain at this point if there are other funds hidden, because the deal that was settled on by the Nova Scotia Provincial Court and Mr. Sponagle did not include for him to disclose the whereabouts of the funds. Mr. Sponagle did not assist PwC as to the whereabouts of the hidden cash. His lack of any prior criminal convictions did not impact on his sentencing.

If white-collar criminals are caught they are less likely to spend a long time in prison as compared to a property offender or murderer.<sup>85</sup> This is accentuated by the fact that most white-collar criminals are first time offenders and they are older.<sup>86</sup>

There also seems to be a disconnect in the white-collar criminal's mind between the actions that they take and what the anticipated repercussions will be of their deceitfulness.

#### **Wheeler-dealer attitude**

According to ACFE, white-collar criminals who held positions as owners or executives were more likely to conduct business in a manner that was skillful and sometimes

---

<sup>85</sup> Albrecht, W. Steve, "Fraud Examination & Prevention", (Mason, Thompson, South-Western, 2004), 18.

<sup>86</sup> 94.80% of the reported cases were by perpetrators who committed their first-time crime. ACFE,66.

Field Code Changed

dishonest. A “wheeler-dealer” mindset accompanied their clever and unethical business practices.<sup>87</sup> Their mindset seems to include a predisposition to committing a crime.

**Smarter than everyone else**

A white-collar criminal also tends to think that he or she is smarter than everyone else.

This mindset seems to set them apart and leads them to rationalize their bad behavior. In the confidential interview conducted for this paper the individual was asked what the most common trait was that surfaced in the investigations they had performed to date.

Their response was excessive ego.<sup>88</sup>

**Position of authority within organization correlates to the size of the fraud**

The white-collar criminal’s position of authority within an organization has been found to be directly linked to the size of the fraud or amount taken.<sup>89</sup> Statistics indicate that “the median loss in a scheme committed by an owner/executive was \$703,000. This was more than four times higher than the median loss caused by managers (\$173,000) and nearly 11 times higher than the loss caused by employees (\$65,000).”<sup>90</sup> This relationship is indicative of the fact that as individuals attain higher positions within an organization they have more power and control. Thereby they are more able to override controls. All of which speaks to the necessity of carefully documenting the overriding of controls when they take place.

---

<sup>87</sup> ACFE, 69.

<sup>88</sup> Confidential contribution from interviewee.

<sup>89</sup>ACFE, 5.

<sup>90</sup>ACFE,5.

Field Code Changed

### **Conflict in job requirements needed to fill white-collar positions**

When you look closely at the traits required to fill management and executive positions in an organization, you notice that the traits that are sought after and rewarded handsomely by organizations are charisma, a drive to succeed and overachieve. These are the same traits that white-collar criminals are found to have. As well, we live in a culture that fosters success that is measured in terms of money and the accumulation of wealth. This drive for success defined by the accumulation of wealth can sometimes become more valued by an employee than being honest.<sup>91</sup> One way to succeed in North America is to climb the corporate ladder. Sometimes the pursuit of what is best for the company in its pursuit of profit, aligns with the individual's personal goals of wealth accumulation. It is not surprising that in this environment individuals become overcome with a desire to share in that profit given that they feel they have contributed more than they feel is fair.<sup>92</sup>

### **Behavioral red flags**

The ACFE 2016 Global Fraud Study provides the best information to us regarding behavioral red flags that are most likely to occur even before the fraud is detected. The most recent study published by ACFE relies on its survey of 2,410 cases obtained from Certified Fraud Examiners (CFE) investigations over the course of a twenty-two-month period (January 2014 through to October 2015). ACFE has been producing this report since 2008, and they have been able to identify 19 common behavioral red flags (See Appendix B for full listing). The 19 behavioral red flags are a mix of motivational reasons and the mindset of organizational criminals. Of these 19 behavioral red flags, six

---

<sup>91</sup> Albrecht, 26.

<sup>92</sup> Ramamoorti, "A.B.C.'s of Behavioral Forensics", 5.

top the list and have done so consistently since 2008 regardless of what level the perpetrator is at in the organization. These six behavioral red flags were identified in 79% of the reported cases. Ranked in order of the most prevalent behavioral flag, they are:

1. Living beyond means
2. Financial difficulties
3. Unusually close association with Vendor/Customer
4. Wheeler-Dealer Attitude
5. Control Issues, Unwillingness to Share Duties
6. Divorce/Family Problems <sup>93</sup>

Living beyond their means was the most common motivation for employees, managers, and top executives and owners to commit occupational crime. Managers were most likely to collude with vendors and customers because they had the closest relationships with these groups whereas top executives and owners were most likely to commit acts of fraud that were related to their wheeler-dealer attitude. They perpetrated the crime for the kicks of it which makes sense because they are the most highly paid in the organization and thus would not be as motivated by the pressures of personal financial difficulties.

The Australian Institute of Criminology also looks carefully at the reasons behind fraud within the commonwealth government entities.<sup>94</sup> Their confidential online survey of their staff is not as reliable as ACFE's Global Fund Study because its statistical sample is

---

<sup>93</sup> ACFE, 68 - 69.

<sup>94</sup> Smith, 1.



much smaller (165 cases in 2013-2014) and relies on staff to self-report.<sup>95</sup> Despite these limitations, there are statistical trends that support the findings in ACFE's report. They did not report by red flags as did ACFE, but they did report by primary motivation.<sup>96</sup> The research reported the following motivations for white-collar crime in the following order of prevalence:

1. Greed and desire for financial gain
2. Professional financial problems
3. Personal and family financial problems
4. Gambling related
5. Pleasing others or due to influence of others
6. Addiction to alcohol or drugs<sup>97</sup>

The research indicates that fraud examiners usually look to behavioral red flags which are normally presented as a mix of motivational and mindset patterns of fraudsters. ACFE's list of behavioral red flags does not distinguish between these two traits. When reviewing ACFE's list of 19 behavioral red flags, the six most likely motivations were identified for further investigation. They are as follows, in the order of prevalence:

1. Living beyond means
2. Financial difficulties
3. Unusually close association with vendor/customer
4. Divorce/Family Problems

---

<sup>95</sup> Smith, 3.

<sup>96</sup> Smith, 10.

<sup>97</sup> Smith, 11.

5. Addiction Problems

6. Excessive pressure from within organization

The above motivations are similar to the results presented by the Australian Institute of Criminology reported previously.

### **Demographics of white-collar criminals**

#### **Length of time with organization**

As discussed earlier, it has been found that white-collar criminals have been in their positions for an extended period of time. This speaks to these individuals as being stable individuals and to the fact that life does impact all of us. None of us are exempt from life's ups and downs. Family and work pressures build and some of us don't have healthy ways of dealing with them.

In some instances, individuals who have long term careers with their employers do so because they have grown within these organizations and have taken on increasing levels of responsibility and trust. This makes for a perfect opportunity for a white-collar crime to take place if the pressure and opportunity exists.

#### **Age of Perpetrator**

Statistics on the age of the white-collar criminals indicate they are mostly between the ages of 40 and into their 60s<sup>98</sup> and sometimes into their 70s.<sup>99</sup> This was a common theme throughout the research conducted for this paper. ACFE's 2016 Global Fraud Study noted that 55% of the criminals reported were between the ages of 31 and 45. However, as the age of the fraudster increased so did the average loss. If the perpetrator was less

---

<sup>98</sup> ACFE.60.

<sup>99</sup> Confidential contribution from interviewee.

Field Code Changed

than 40 years of age the midpoint loss to the organization was \$100,000 US. With fraudsters over the age of 40 the midpoint loss increased to \$250,000 US or more.<sup>100</sup> With age and higher levels seniority in an organization the risk of loss through white-collar crime appears to increase. The longer an individual remains employed with an organization the more chances they have of being promoted to management and executive positions giving them not only the power of knowledge of how the company works, but more access to overriding internal controls and more access to the assets of the organization. They are also increasingly being placed in positions of trust within the company because of their tenure and their loyalty.<sup>101</sup> ACFE reported that of the 3% of those reported who were 60 and above, these individuals were most likely to perpetrate the most. The median loss from those aged 60 years and over was \$630,000 US.<sup>102</sup>

Perpetrators who are tenured in the organization are known to have a sense of entitlement because they overvalue their contributions.<sup>103</sup>

### **Gender of Perpetrator**

Both males and females commit white-collar crimes. The statistics are more skewed to men perpetrating the frauds as they make up more of the global work force. ACFE reported that 69% of fraudsters were male with the rest being female. This has been consistent over the years, shifting very little.<sup>104</sup> ACFE also reported that men are more likely to cause larger losses than women. The most recent data reported had the median

---

<sup>100</sup> ACFE, 60.

<sup>101</sup> ACFE, 54.

<sup>102</sup> ACFE, 60.

<sup>103</sup> Comment by Jarrett Reaume, June 1, 2017. Experience based on interviews conducted during investigations.

<sup>104</sup> ACFE, 57.

loss perpetrated by men as \$187,000 US and only \$100,000 US by women.<sup>105</sup> This may be because men are more likely to be in managerial roles for longer consistent periods of time whereas women's careers are often interrupted by child bearing and rearing.

ACFE reported that the percentage of male perpetrators increases as they move into managerial positions and then increases again when they move into owner/executive levels as compared to female perpetrators. At the managerial level, 73% are male perpetrators versus 27% female and at the owner/executive level, 83% are male versus 17% female.<sup>106</sup> Regardless, the study still found that male-perpetrated fraud still caused more loss than those crimes perpetrated by females. At the managerial level, white-collar crime committed by males was 18.6% more than those perpetrated by women and at the executive/owner level the male-perpetrated white-collar crime resulted in losses that were 175% more than those committed by female executive/owners.<sup>107</sup>

It has been found that women and men perpetrate crime for different reasons. Women may be more apt to commit a crime if they are single and on their own, with children, and are struggling to make ends meet. The pressure is financial and may be alleviated when they become coupled again. Men have been cultured to be providers and as such are raised to assume that they will be the main financial provider for the household.<sup>108</sup> This, of course, is not always the case, but when men are raised under that model, they do feel

---

<sup>105</sup> ACFE, 58.

<sup>106</sup> ACFE, 58.

<sup>107</sup> ACFE, 59.

<sup>108</sup> Sheehy, Gail, "Understanding Men's Passages", (New York: Ballantine Books, 1999), 18.

the pressure to be providers and may be more likely to perpetrate a white-collar crime if they are under any type of pressure to provide beyond what they earn.

The Australian Institute of Criminology's report also found it more likely that men would be suspected of fraud over women.<sup>109</sup>

### **Education of Perpetrator**

ACFE's study found that the amount of the loss due to organization crime was linked to the perpetrator's level of education. If a university degree was held the median loss was \$200,000 US. If a postgraduate degree was held, the median loss would be \$300,000 US.<sup>110</sup> This data was not sorted by positions within the company, however it can be assumed that employees in management positions and executive positions would be more likely to have higher education.

The Australian Institute of Criminology's survey did not provide any insight on the correlation between a fraudster's education and the level of loss created.<sup>111</sup>

Individuals with an antisocial personality disorder are known to think that they can be anything they want to be and as such they believe it's not necessary to have the credentials required to work areas. They are also known to have the tendency to easily use someone else's money to realize their personal financial goals. Psychopaths are also recognized as not being able to maintain an interest in obtaining an education.<sup>112</sup> A sense

---

<sup>109</sup> Smith, 6.

<sup>110</sup> ACFE, 51.

<sup>111</sup> Smith, 7.

<sup>112</sup> Hare, 39.

of entitlement and confidence seems to lead them to believe that they don't need to obtain an education.

Bernie Madoff attended Rockaway High School, New York, where he graduated in 1956. Classmates he graduated with remember him as being smart but not someone who would put effort into his school work.<sup>113</sup> Upon graduating from high school, Mr. Madoff attended the University of Alabama where he left after his first year to attend Hofstra College in New York. He obtained his undergraduate degree in Political Science. He then went on to obtain licensing to enable him to work in the field of securities.<sup>114</sup>

Mr. Madoff is known to have taken some law classes but never to have graduated from law school. He relied on others for this expertise. However, he is known to have marketed himself as having a law degree. In 2008, his website indicated that he started his firm "in 1960 after leaving law school".<sup>115</sup> This language is evasive and misleading.

Mr. Madoff is well known for his use of others financial wealth to achieve his own personal financial goals.

### **Motivation of the white-collar criminal**

Motivations can be broken down into financial and non-financial motives.

#### **Financial motives**

---

<sup>113</sup> Arvedlund, Erin, "Too Good to Be True", (New York: The Penguin Group, 2009), 65.

<sup>114</sup> Arvedlund, 71-75.

<sup>115</sup> Arvedlund, 76.

a) **Living beyond one's means.** From the research conducted, living beyond one's means is the number one motivation behind all employee crimes and it is by far the most likely reason to cause people grief in their lives. In today's consumerist society we are encouraged to buy more, and more, and encouraged to take on debt to enable us to buy more to do so.

b) **Financial difficulties.** Living beyond one's means will most likely lead to financial difficulties but there are many reasons for why we end up with financial problems. Maintaining one's status in life may be one reason.<sup>116</sup> Sometimes we make promises to others that we may end up not being able to keep and, instead of admitting to ourselves that we cannot live up to our promise, we continue to attempt to fulfill it without compensating for it somewhere else. For example, we may have agreed with our spouse that we would pay for our children's university education and have not set aside enough previously to cover this expense. And instead of having a realistic conversation about this or having the ability to borrow the funds, the fraudster may keep this to himself or herself and devise a plan to perpetrate a white-collar crime.

Culturally, men still define themselves by their ability to provide for their families and this may cause them a tremendous amount of pressure depending on their family situation.<sup>117</sup>

---

<sup>116</sup> Ramamoorti, "A.B.C.'s of Behavioral Forensics", 5.

<sup>117</sup> Sheehy, 18.

c) **Unusually close association with vendor/customer.** There are opportunities that arise that encourage employees to collude with either a vendor or a customer. For example, a vendor may approach the purchasing agent of the company to influence their buying choices by offering them an incentive in the form of a kickback. Usually this results in the company buying material or equipment at an inflated price or material and equipment that is obsolete.

d) **Divorce/family problems.** Divorce causes upheaval and instability for the family affected and can place added strain on the main bread earner of the family if that is the way the family is structured. Divorce means that there are two households to be maintained and in some cases hefty alimony and child maintenance payments to be made. Divorce is very common in our middle years and affects pensions and expectations for retirement. *“Between 1970 and 1990 the divorce rate for women between the ages of 40 and 50 increased by 62 percent.”*<sup>118</sup>

As well, an illness in a family can put a tremendous strain on a family’s finances.

e) **Addiction problems.** Gambling and substance abuse can lead to financial destruction for a family and potentially the addict’s employer. Men’s addictive behaviors are more commonplace in midlife than what the research presents. Their drug dependency is a hidden phenomenon, as stated by Dr. Harry Wexler, who is an expert on drug addiction.<sup>119</sup>

---

<sup>118</sup> Sheehy, 89.

<sup>119</sup> Sheehy, 42.



**Non-financial motives**

- a) **Corporate financial pressure.** There may be pressure to present financial results that are better than actuals. This may be done by a manager, Controller, CFO and/or CEO for several reasons.

If they are the Controller, CFO and/or CEO they may manipulate the financial statements to present improved results. One way of increasing revenue results for one period is channel stuffing. Channel stuffing can occur if the employee has close relationships with clients of the organization. The employee may feel comfortable enough to ask their clients to buy product that exceeds the client's needs. This will falsely elevate sales. The clients are then permitted to return the product in the next reporting period without penalty.

Alternatively, schemes may be perpetrated by the Controller, CFO and CEO to reduce expenditures by falsely capitalizing expenditures on the balance sheet. These types of schemes can also be driven by financial motives to earn higher bonuses.

- b) **Fear of losing employment.** There may be situations where the CFO will be pressured by the CEO to prepare reports to help their company continue to operate.<sup>120</sup> They may comply to keep their own jobs.

---

<sup>120</sup> Ramamoorti, "A.B.C.'s of Behavioral Forensics", 232.

c) **Ego.** Some may see themselves as heroes because they feel they are helping the company through a rough time. The white-collar criminal may believe that they are smarter than their victims and count on their ability to manipulate to get away with the crimes.<sup>121</sup> In an interview held for this paper, the interviewee confirmed that ego was the top trait exhibited by individuals that they investigated in relation to white-collar crimes.<sup>122</sup>

The names in this story are changed. This is a personal account of a situation I was involved in early on in my career:

The company sold expensive equipment that it manufactured and sold to the US Navy. The company president who was also the top salesperson believed in the company and its vision, however he was a spendthrift not only personally but professionally as well. There was also another salesperson for the company. As 90% of business was in the United States the two salespeople travelled extensively to meet with current and potential clients. As well, there were conferences to attend which they felt were beneficial for the business.

The president and salesperson travelled extensively, regardless of the financial situation of the company and spent lavishly. Meanwhile back at head office the company was struggling to meet payroll and vendor payments were delayed consistently with a new story contrived each time they called.

---

<sup>121</sup> Ramamoorti, 232.

<sup>122</sup> Confidential interview.

Field Code Changed

In my two years with the company, payroll was only delayed once, however there were many times where non-payment loomed. To meet bank reporting requirements for the line of credit the CFO would report fraudulent results monthly. From what I know of the situation he was not in any way compensated for doing so. He did admit with pride that he had six different sets of financials that he maintained for different purposes. His ego was bolstered by the fact that he was keeping the bank and creditors at bay in the belief that the company would eventually come out from underneath the financial strain. He also felt great pride in knowing that he was helping to keep 35 talented employees in work.

This is an excellent example of an employee motivated to present fraudulent results because of corporate financial pressures, the fear of losing employment for himself and others and by his ego.

**d) Revenge against the organization.** It is also possible that managers and executives/owners may become frustrated with work and seek revenge against their supervisor and/or company.<sup>123</sup> They may believe the company owes them more than what they receive in compensation.<sup>124</sup>

---

<sup>123</sup> Fraud Examination & Prevention, Albrecht & Albrecht, page 19.

<sup>124</sup> Ramamoorti, 3.

e) **Wanting to please their employer or spouse.** Employees may want to please their employers and may do anything to obtain their admiration. Individuals may even be pressured by spouses to be more successful or even on some psychological level prove their love to them by being more successful. An individual with narcissistic tendencies would be impacted this way because they have a deep need to be admired.

The following is also based on a true story however the names have been changed.

Dan Kerr was top salesperson at a medium-sized company called Forrest Machinery Ltd. He felt that he was doing a great job and that he should be compensated for that by being made a shareholder. After being with the company for 20 years he decided it was time and stormed into the CEO's office to complain that he was underpaid and demanded that he be made a shareholder. Mr. Kerr forgot that all his training came from the CEO and that the CEO had also introduced him to all the company's network of contacts when Mr. Kerr first started. Mr. Kerr was not required to start from scratch.

The CEO was surprised at Mr. Kerr's attitude and told Mr. Kerr that he had to take time to consider what Mr. Kerr's individual contributions were to date. While checking into Mr. Kerr's performance, the CEO was tipped off that Mr. Kerr might personally be benefiting from the sale of used equipment that Forrest Machinery Ltd. clients were replacing with new equipment purchased from Forrest Machinery Ltd. The revenue from the sale of used equipment should have been benefiting Forrest Machinery Ltd. After

Field Code Changed

hearing this the CEO hired forensic accountants and private investigators to get to the bottom of what Mr. Kerr was up to without him knowing.

The investigation revealed that Mr. Kerr and his wife led a lavish lifestyle and one that their salaries could not support. The investigation also revealed that Mr. Kerr became increasingly difficult to deal with at work because he grew more confident and arrogant. Another important finding was that Mrs. Kerr was known to be demanding of her husband in public which may have shamed him into becoming an overachiever. He may have responded to her comments by working excessively to provide an income level which helped support the lavish spending and helped to maintain his relationship with Mrs. Kerr in good stead.

In the interview held by the forensic accountants and private investigators, Mr. Kerr revealed that he and Mrs. Kerr were financially strained.

During the interview, Mr. Kerr also admitted that he and Mrs. Kerr deceived Forrest Machinery Ltd.'s clients. They formed a company whose name was Forrest Machinery Inc. which made it less likely for the clients to suspect that the funds for the used equipment were being diverted to them personally.<sup>125</sup>

---

<sup>125</sup> Allan, 39-40.

This case shows that it is not just one aspect of a fraudster's behavior that needs to be paid attention to by the investigator and by employers. It also exhibits that there can be financial and non-financial motives that are creating pressure for a white-collar criminal.

### **Summary**

#### **Men as perpetrators of white-collar crimes**

There is a pattern which became evident from the research that was conducted that does not seem to be explained well. Men, predominantly between the ages of 40 and into their mid-50s, and even into their 60s and 70s, were more apt to perpetrate white-collar crimes and for larger sums of money than women. They were also mostly first-time offenders. What was not explained in the accounting literature that investigated white-collar crime and fraud is what specifically was motivating these men of this age group to perpetrate these crimes. These men did not seem to fit the description of an individual with antisocial tendencies. And as discussed before, individuals with antisocial personality disorder are more likely to slow down in their bad behavior as they begin to age and they were most likely to have already perpetrated a crime earlier on in their work lives.

The interview with Scott Porter explored this phenomenon. Mr. Porter has conducted many interviews of individuals alleged to have committed fraudulent offences in his role as Senior Investigator of Professional Conduct at CPA Ontario. He related to me that in most cases the individuals he has interviewed are "*good people who have made bad decisions*". And this comment applies to both males and females. He also confirmed that men can experience tremendous pressure fulfilling their societal roles as good financial providers. In later years, this financial pressure intensifies with children attending university and the reality of retirement approaching and not having enough put away for

this purpose. Mr. Porter also commented that in many cases where the white-collar criminal had confessed to the crime that he or she had expressed remorse for their actions.<sup>126</sup> This is opposite to traits exhibited by those individuals exhibiting narcissism and antisocial personality tendencies.

Men begin to age around 40 which correlates to the data in the research that says men are most likely to perpetrate the more significant white-collars crime beginning at the age of 40. Significant hormonal loss can begin by the age of 40.<sup>127</sup> Aging for men occurs in a more gradual way than it does for women. As men age they are known to experience fatigue, they lose muscle mass and are known to experience changes in their moods which shows up as anxiety, irritability, impatience, restlessness and sometimes even depression.<sup>128</sup> There can also be memory loss.

*“The biggest problem... is that men tend to blame others around them for their feelings and either isolate from them or act out toward them, and/or they self-medicate in self-destructive ways... addictions, violence and suicide are at their peak in men in midlife.”*<sup>129</sup>

There is another phenomenon that occurs as we age and that is that we rebel to some extent. For those men who have worked and provided for their families there comes a

---

<sup>126</sup> Interview Scott Porter.

<sup>127</sup> Ovenstone, Mary, “The second midlife crisis”, (CME: Your SA Journal of CPD 25.2, Feb. 2007), 88.

<sup>128</sup> Ovenstone, 88.

<sup>129</sup> Ovenstone, 88.

time when they want to begin to live life for themselves.<sup>130</sup> This may be why some white-collar crime is perpetrated for kicks.

*“Most men over 50 in corporate life have been conditioned to be good corporate citizens, to go with the flow, to be chameleons, and to choose their mates and build their lives around externalized values and material accomplishments.”<sup>131</sup>*

As IFAs we need to make note that white-collar criminals are not just callous, impulsive, selfish, egocentric and aggressive.<sup>132</sup> They can be any one of us. This may also help to explain why most white-collar criminals are first time offenders.

**Knowledge of patterns of white-collar criminals are helpful to IFAs**

IFAs need to have a comprehensive understanding of the patterns of the white-collar criminal so that they are able to empathise with what the perpetrator is trying to achieve and how. This knowledge will help to improve investigations, in particular, in our interviews of suspects of white-collar crime.

It may help to further understand what the criminal mind is capable of. Ultimately IFAs need to remember to maintain their professionalism, objectivity and skeptical mind. Our skeptical mindset is the trait that separates IFAs from other accountants.

---

<sup>130</sup> Sheehy, 7.

<sup>131</sup> Sheehy, 125.

<sup>132</sup> Hare, 176.



**IFAs use of behavioral assessment in their investigations**

IFAs are trained to provide expert testimony in court as financial experts. IFAs must take great care not to portray themselves as experts in behavioural assessment. If there is a need to rely on this type of expertise or if it is determined that a benefit will be derived from this type of expertise in a case then an expert psychologist or psychiatrist would need to be hired.

If opposing counsel was aware of the IFA’s use of behavioral assessment in their investigations that was not supported by a behavioral expert’s opinion it would put the IFAs expert testimony in jeopardy. IFAs are not experts in behavioral assessment.

**Value in background checks as a source of information on prospective employees**

Reference checks are one way employers check for a new employee’s authenticity and this type of checking is subject to manipulation. Background checks such as criminal record checks and credit checks are an important source of information on prospective employees. In ACFE’s 2016 Global Fraud Study it was determined that only a little over half of the organizations that were surveyed conducted background checks. And of those that were conducted, 88% revealed no prior criminal activity.<sup>133</sup>

---

<sup>133</sup> ACFE, 45.

There is value in performing background checks. Employers are encouraged to perform background checks for every employee hired.

**Value in continual background checks in course of employment**

Given the fact that most white-collar crime occurs in males between the ages of 40 and 55 and then into their 60s and 70s it is imperative that IFAs encourage employers to conduct background checks on tenured employees at least every five years.

Individual circumstances change and therefore needs change. Especially important will be the background checks and credit checks of employees who are promoted into managerial positions, and then to do so as a matter of course every five years.

Employers need this information to retain their confidence in their employment and promotion choices.

It may be of benefit to hire private investigators to do a lifestyle analysis of managers and executives to determine how these individuals live and what the health of their family relations are.

Field Code Changed

**Conclusion**

The topic of the patterns in the mindset and motivation of the white-collar criminal was selected for this paper because it is important that IFAs become more aware of what factors influences a person to conduct this type of crime.

This paper began with a review of three papers written by DIFA students on the patterns in the mindset and motivation of white-collar criminals. These three papers were written in 2014. The research for this paper included academic papers written on the topic since 2014. This research revealed that papers written on the topic are limited. This reinforces the need for further research in this area.

ACFE gives us valuable up-to-date information on patterns in mindset and motivation of occupational fraudsters in its Report to the Nations on Occupational Fraud and Abuse. It is agreed that fraud investigators are the best source of information on this topic.

The review of research was to determine if there were new trends in motivation and mindset of white-collar criminals.

The paper set out to ensure that the reader was comfortable with words commonly used in investigative and forensic accounting and the phrase white-collar criminal and types of white collar crimes.

The paper also reviewed the common fraud models used by IFAs in their investigations before getting into a discussion of personality disorders.

As this paper explored the mindset and motivation behind white-collar crime, three personality disorders were identified as being potentially valuable to IFAs in their investigations.

The paper then made a distinction between patterns in the fraudster's mindset and motivation. IFAs traditionally present patterns in mindset and motivation co-mingled as red flags. This paper presented them separately and further highlighted financial motives and non-financial motives of white-collar criminals.

The research conducted for this paper identified an area of interest that could be expanded on. It found that men between the ages of 40 and 55 are most likely to perpetrate white-collar crime and to do so for the first time. It was found these perpetrators caused their employers significant losses. The paper explored this phenomena and was able to correlate specific financial pressures to this time in men's lives. It is a time when their grown children begin university and when consideration is given to the financing of one's retirement. The findings also revealed that men in this age group tend to experience more emotional disturbances and are prone to addictive behavior.

There are two other aspects that were not considered by this paper. One was marital status for men in this age group. Divorce is a motivation for white-collar crime and needs to be investigated further.

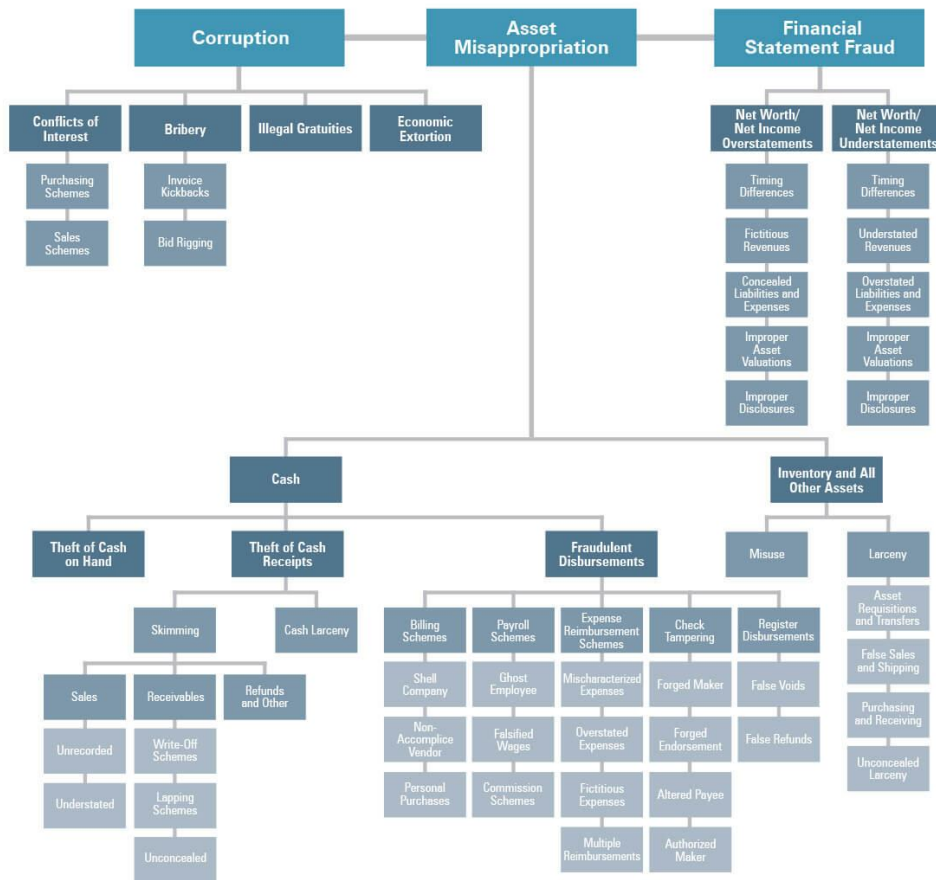
As well, this paper did not delve into what may further motivate women to perpetrate pink-collar crime. This topic could easily become the focus of a research paper.

This paper has established that IFAs need to become more aware of, and more in tune with, the patterns in the mindset and motivations of the fraudster to strengthen our investigative efforts. By doing so we will be able to assist our clients who want to incorporate methods to further prevent white-collar crime. White-collar crime continues to become more complex as our organizations grow with technology and as employees' jobs become narrower in focus.

Appendix A

# THE FRAUD TREE

OCCUPATIONAL FRAUD AND ABUSE CLASSIFICATION SYSTEM



Produced with permission from the Association of Certified Fraud Examiners (ACFE).

Image was accessed May 22, 2017 at [www.acfe.com/rtn2016/images/fruad-tree.jpg](http://www.acfe.com/rtn2016/images/fruad-tree.jpg)

Field Code Changed

**Appendix B**

Behavioral Red Flags Displayed by Perpetrator from highest occurring to the least occurring as provided by ACFE in its 2016 Report to the Nations on Occupational Fraud and Abuse, 68.

<b>Behavioral Red Flag</b>	<b>% of Cases Investigated</b>
Living beyond means	45.8%
Financial difficulties	30.0%
Unusually close association with vendor or customer	20.1%
Wheeler-dealer attitude	15.3%
Control issues, unwillingness to share duties	15.3%
Divorce/family problems	13.4%
Irritability, suspiciousness or defensiveness	12.3%
Addiction problems	10.0%
Complained about inadequate pay	9.0%
No behavioral red flags	8.8%
Refusal to take vacation	7.8%
Excessive pressure from within the organization	7.0%
Past employment-related problems	6.8%
Social isolation	5.9%
Past legal problems	5.6%
Other	5.5%
Excessive family/peer pressure for success	5.1%
Complained about lack of authority	4.4%
Instability in life circumstances	4.3%

## Bibliography

1. Albrecht, W. Steven and Albrecht, Chad O., "Fraud Examination & Prevention", Ohio: South-Western, a division of Thomson Learning, 2004.
2. Allan, Roddy, "The human face of fraud: Crunching the numbers plays a role in any fraud investigation, but a vital element is understanding the suspect", CAmagazine, May 2003.
3. American Psychiatric Association: Diagnostic and Statistical Manual of Mental Disorders, Fifth Edition. Arlington, VA, American Psychiatric Association, 2013.
4. American Psychological Association, Personality, <http://www.apa.org/topics/personality>; Accessed May 15, 2017.
5. Arvedlund, Erin, "Too Good to Be True, The Rise and Fall of Bernie Madoff", New York: The Penguin Group (USA) Inc., 2009.
6. Association of Certified Fraud Examiners (ACFE), Report to the Nations on Occupations Fraud and Abuse, 2016 Global Fraud Study, [www.acfe.com/rtn2016.aspx](http://www.acfe.com/rtn2016.aspx); accessed April 29, 2017.



7. Bonn, Scott, Ph.D, “Why Elite White-Collar Criminals Are Rarely Punished: The system protects white-collar criminals”: April 9, 2017.  
  
<https://www.psychologytoday.com/blog/wicked-deeds/201704/why-elite-white-collar-criminals-are-rarely-punshed>. Accessed May 1, 2017.
8. Cressey, Donald, “Other People’s Money: A Study in the Social Psychology of Embezzlement”, New Jersey, Patterson Smith, 1973.
9. Doyle, John, “Wizard of Lies presents a chilling portrait of a monstrous Madoff”, Globe and Mail, May 19, 2017.
10. Eaton, Tim V., “A Criminological Profile Of White-Collar Crime”, The Journal of Applied Business Research, Korach, Sam, Volume 32, Number 1, January/February 2016.
11. Fitzpatrick, Ashley, “RCMP Commercial Crimes unit no longer exists: Part of police force overhaul as it adopts new approach to crime fighting.” The Telegram, May 20, 2016.
12. Hare, Robert D., “Without Conscience: the disturbing world of the psychopaths among us”, New York: The Gilford Press, 1993.
13. Hodgkinson, Christopher, “Administrative Philosophy: values and motivations in administrative life”, 1<sup>st</sup> edition, Great Britain, Redbooks Books Ltd., 1996.

14. <https://en.oxforddictionaries.com/>; accessed April 23, 2017.
15. Mangala, Deepa; Kumari, Pooja, "Corporate Fraud Prevention and Detection: Revisiting the Literature", *Journal of Commerce and Accounting Research*, Volume 4, Issue 1, 2015.
16. McInnes, Mitchell, Kerr, Ian R., Vanduzer, J. Anthony, "Managing the Law: The Legal Aspects of Doing Business", Fourth Edition, Toronto: Pearson, 2014.
17. Melley, Brian "Alanis Morissette's ex-business manager admits to stealing \$4.8 million from singer", *The Associated Press, National Post*, January 19, 2017.
18. Melley, Brian, "Alanis Morissette's ex-manager gets six years for stealing \$7-million", *The Globe and Mail (Los Angeles)*, published May 3, 2017 6:44 PM EDT and updated May 3, 2017 11:18 PM EDT.
19. "Mint employee who hid stolen gold in rectum gets 30-month sentence", Ottawa, *The Canadian Press. The Globe and Mail* originally published February 2, 2017 at 10:23AM EST and updated February 2, 2017 12:36 PM EST.
20. Mulgrew, Ian, "Police in no rush to investigate white-collar offenders", *Vancouver Sun Columnist*, January 28, 2016.

Field Code Changed

<http://www.vancourversun.com/business/mulgrew+police+rush+investigate+white+collar+ofeenders/11683418/story.html>

21. Myers, David G., "Psychology, Tenth Edition in Modules", New York: Worth Publishers, 2013.
22. Ovenstone, Mary, "The second midlife crisis – male and female menopause", CME: Your SA Journal of CPD 25.2 (Feb 2007) page 88-89.
23. Pascal, Emmanuel, CFE, CIA, CRMA, Group Corporate Audit Manager, Brakes Group, France; "Key Fraud Indicators (KRI): A New Approach to Set Up and Use Effective Fraud Indicators"; Presented at the ACFE European Fraud Conference, 2014.
24. Porter, Scott, "The Confession Interview, Ethical, Legal, and Psychological Implications for the IFA", June 20, 2011, <https://mfacc.utoronto.ca/sites/files/difa/public/shared/Program/ResearchProjects/DIFA2011-The%20Confession%20Interview.pdf>; accessed May 7, 2017.
25. "Profiling a White Collar Criminal: Gender, Age and Job Role Among Key Factors in Occupational Fraud, ACFE Report Finds." Austin Texas, September 10, 2008. Austin, Texas. <http://www.acfe.com/press-release.aspx?id=4294968561>; accessed May 3, 2017.

Field Code Changed

26. Ramamoorti, Sridhar, Morrison, Daven, Koletar, Joseph, W., “Bringing Freud to Fraud: Understanding the State-of-Mind of the C-Level/White Collar Offender through “A-B-C” Analysis”, *Journal of Forensic & Investigative Accounting*, Vol. 6, Issue 1, January – June 2014, Page 47-81.
27. Ramamoorti, Sridhar, Morrison II, David E., Koletar, Joseph W., Pope, Kelly R., “A.B.C.’s of Behavioral Forensics: Applying Psychology to Financial Fraud Prevention and Detection”, New York: John Wiley & Sons, Inc., 2013.
28. Sheehy, Gail, “Understanding Men’s Passages: Discovering the New Map of Men’s Lives”, New York: The Random House Publishing Group, a division of Random House Inc., 1998.
29. Smedmor, Charles, “The Psychology of Fraudsters”, Fountain, Tina; Kashton, Ari; Petrache, Carina; March 8, 2016.
30. Smith, Russell, G. and Jorna, Penny, “Fraud within the Commonwealth: A census of the most costly incidents 2014”, Australian Government, Australian Institute of Criminology, Statistical bulletin 02, ISSN 2206-7302, March 2017,
31. Sutherland, Edwin H., “White-Collar Criminality”, *American Sociological Review*, Volume 5, Number 1, February 1940.

Field Code Changed

32. “The 10 Worst Accounting Scandals of All Time”, <http://www.accounting-degree.org/scandals/>. Accessed May 14, 2017.
33. Urgrin, Joseph C., Odom, Marcus D., Ott, Richard L., “Examining the Effects of Motive and Potential Detection on the Anticipation of Consequences for Financial Statement Fraud”, *Journal of Forensic & Investigative Accounting*, Vol. 6, Issue 1, January – June 2014: 151-180.
34. Wald, Moshe, MD, Miner, Martin, MD, and Seftel, Allen D., MD, “Male Menopause: Fact or Fiction?”, *American Journal of Lifestyle Medicine*, March – April 2008: 132-141.
35. Wolfe, David T., and Dana R. Hermanson, “The Fraud Diamond: Considering the Four Elements of Fraud.” *CPA Journal* 74.12 (2004): 38-42.
36. [www.businessdictionary.com](http://www.businessdictionary.com); accessed April 23, 2017.
37. [www.dictionary.com](http://www.dictionary.com); accessed April 23, 2017.
38. [www.fbi.gov/investigate/white-collar-crime](http://www.fbi.gov/investigate/white-collar-crime); accessed May 9, 2017.