

CORPORATE FRAUD ISSUES

STEVE WILLIGER
Thompson Hine

ROCK-SOLID LITIGATION MANAGEMENT

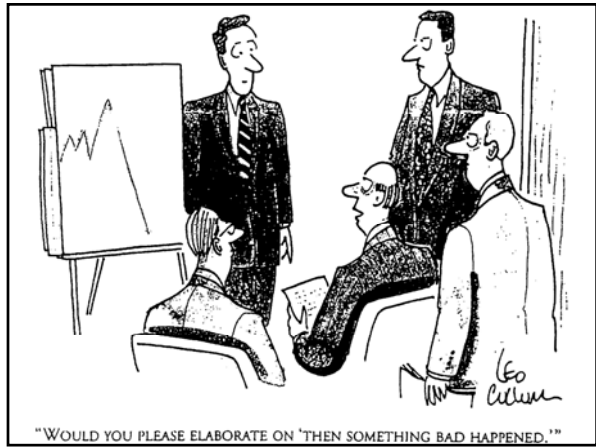
Fraud Directions 2008

**THOMPSON
HINE**



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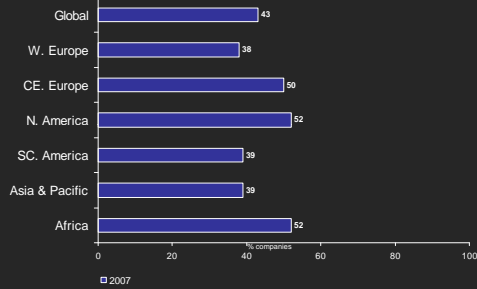


Prevalence

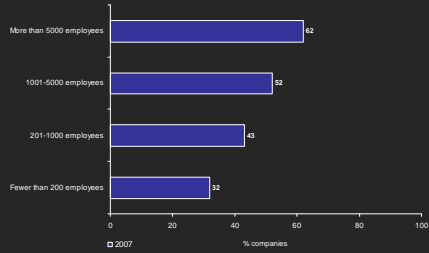
Sources of Information (If not Thompson Hine)

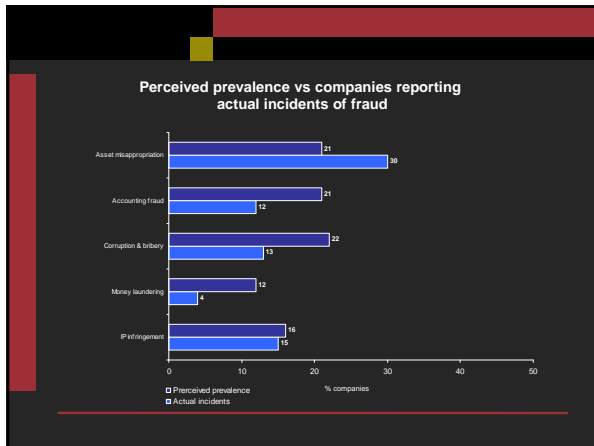
1. Price Waterhouse Coopers (courtesy Albert Vandra)
2. Martin-Luther University
 - Economy & Crime Research Center
3. Report to the Nation on Fraud and Abuse
 - Association of Certified Examiners
4. KPMG International

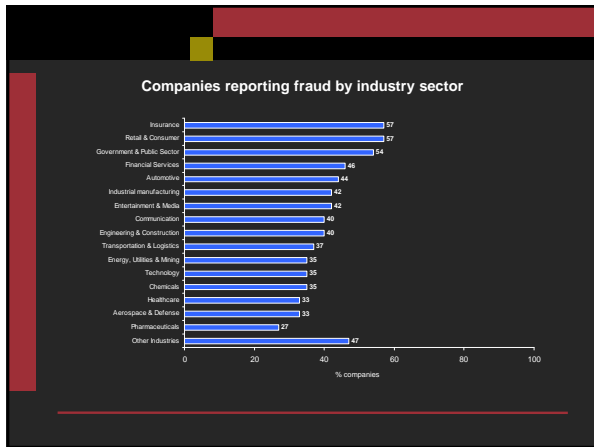
Companies reporting fraud

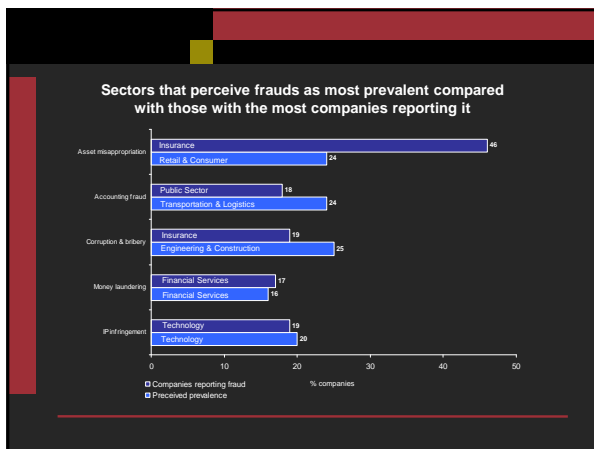


Companies reporting fraud, according to their number of employees

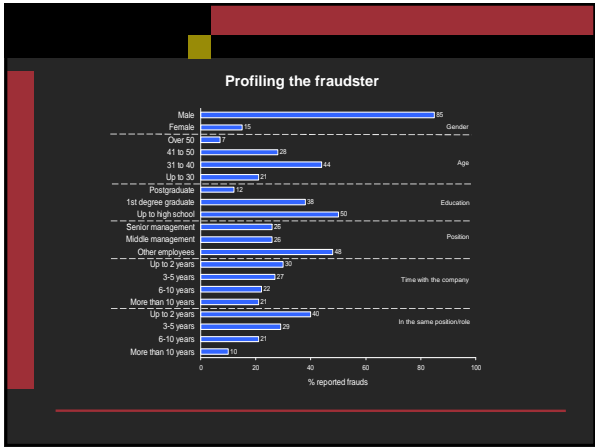


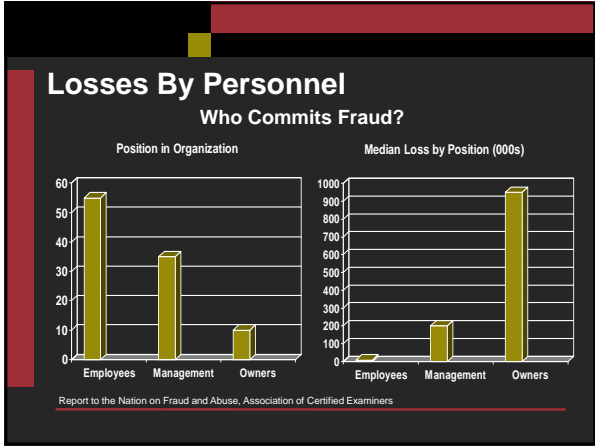






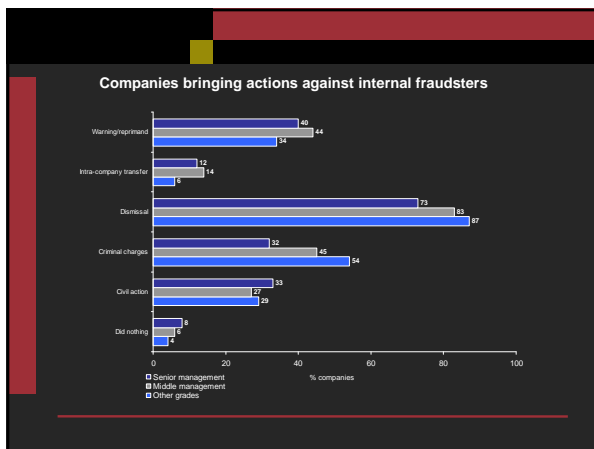
Who Commits Fraud?





Individual motivations:	Self-rationalizations:
<ul style="list-style-type: none"> Financial incentives/greed (57%) 	<ul style="list-style-type: none"> Fraudsters' low temptation threshold (44%)
<ul style="list-style-type: none"> Maintaining a lifestyle unsupported by their salary (36%) 	<ul style="list-style-type: none"> Apparent lack of awareness regarding the nature of their wrongdoing (40%)
<ul style="list-style-type: none"> Career disappointments (12%) 	<ul style="list-style-type: none"> Denial of the financial consequences of fraudulent act (26%)
<ul style="list-style-type: none"> Prospect of being laid off or made redundant (8%) 	<ul style="list-style-type: none"> Consider selves underpaid





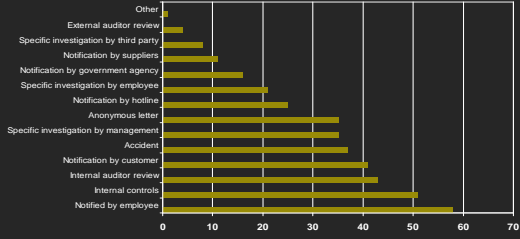
Detection





Fraud Survey Findings

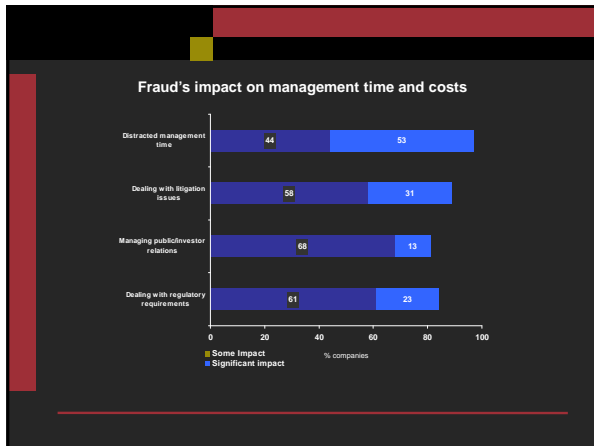
How were the frauds discovered?

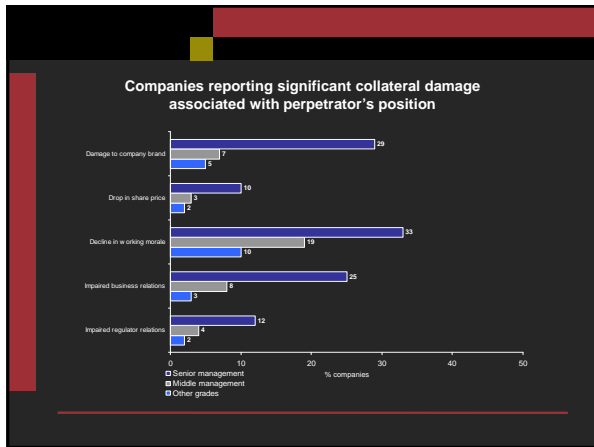


Losses

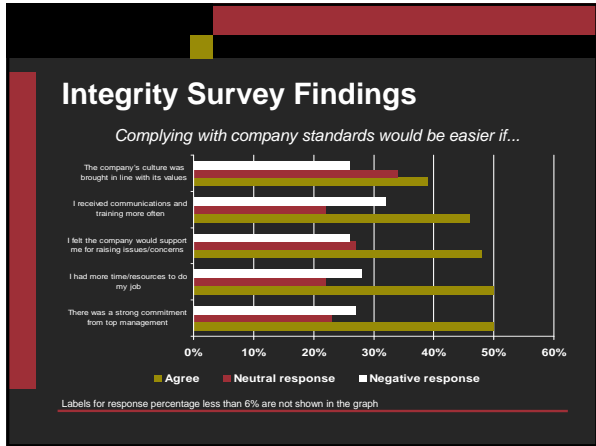
What fraud costs

Direct losses (on average)	US\$ 3,242,095
+	
Management costs (on average)	US\$ 550,356
+	
Damage to the brand	88% cases
+	
Damage to staff morale	88% cases
+	
Damage to external business relations	84% cases
+	
Costs of dealing with the regulator	84% cases
+	
Damage to relations with the regulator	80% cases
+	
Damage to share value	69% cases

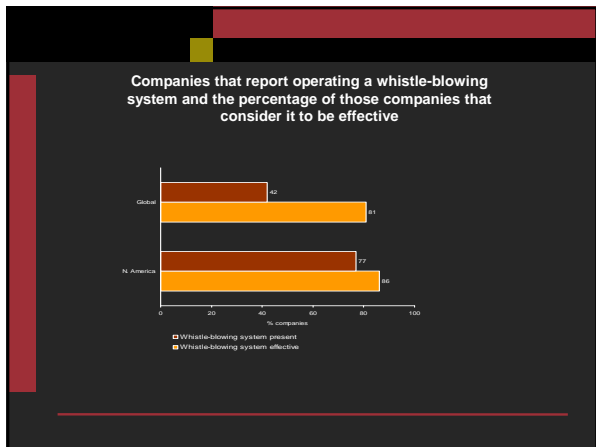




Remedial Measures







Fraud Risks

- Desperate people do desperate things
- Regulatory requirements
- Competition
- Rapid changes in business/economy
- Need for capital
- Complex transactions or structure

Fraud Risks

- Management guarantees
- Restrictions on auditors
- Senior management turnover
- Financial targets/pressures

Fraud Risks

- Compensation plans
- Plausible explanations
- Complex explanations
- Center of attention
- Frauds always start small
- Willful blindness/conscientious avoidance

Some Observations

- Employees are observing widespread illegal and unethical conduct
- The type of misconduct being observed can threaten sustainable business performance
- When misconduct occurs, management is often in the dark until it is too late
- When managed well, business integrity can attract and retain employees and customers and impact fraud
- Senior management must take a more active role in creating a corporate culture which encourages ethical behavior
- In addition to internal controls, companies need to have systems and strategies in place to encourage and monitor ethical behavior

PROVEN FRAUD REDUCTION TECHNIQUES Prevention/Detection/Response

1. Establish integrity from the top
2. Establish a corporate code of conduct/ethics
 - Make all employees aware
 - Company-wide communication
 - Regular training
3. Employees
 - Reference checks on new employees
 - Realistic expectations for deliverables
 - Employment agreements
 - Warning signs/red flags: Don't ignore Fraud Risks
 - Enforcement and accountability protocols
4. Review/improve internal controls

PROVEN FRAUD REDUCTION TECHNIQUES Prevention/Detection/Response (cont.)

5. Fraud audits
 - Fraud/misconduct risk assessment
 - proactive forensic data analysis
6. Whistle Blowing opportunities
 - Hot lines
 - Allocate resources/time to do job
7. Corporate Security
8. Open channels of communications with suppliers/customers
9. Response
 - Internal investigation protocols
 - Disclosure protocols
 - Remedial action protocols

“A robust fraud strategy is one that is sponsored at the highest level within a firm and embedded within the culture. Fraud threats are dynamic and fraudsters constantly devise new techniques to exploit the easiest target.”

Philip Robinson
Financial Crime Sector Leader,
Financial Services Authority

February 27, 2006





Stephen D. Williger

Partner

Stephen is a partner in the Business Litigation practice group. He focuses his practice on business litigation, including complex fraud and securities cases and complex entertainment law disputes.

Stephen is admitted to practice in Ohio, the United States District Courts for the Northern and Southern Districts of Ohio, the U.S. Court of Appeals for the Sixth Circuit and the United States Supreme Court.

Representative Matters

- Obtained a favorable federal jury verdict in a five week accounting fraud trial.
- Assisted a national management recruiting firm in enforcing a large contract for provision of its services against a national computer retailer. The representation resulted in a significant payment to the client.
- Defended a national group of concert promoters in federal court in New York against antitrust and related claims.
- Represented publicly-held provider of telephone service in numerous commercial disputes. In one case, obtained a sanction against the plaintiff in the amount of \$500,000.
- Represented public and private boards in numerous cases involving allegations of fraud and breach of fiduciary duty.
- Represented public and private boards whose companies were under federal investigation by federal and/or state law enforcement authorities.
- Led a team of twenty-plus attorneys in representing the court-appointed examiner in the then largest case of fraud in United States Bankruptcy Court history.

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Education

Cleveland-Marshall College of Law,
J.D., 1982

Case Western Reserve University,
M.S.S.A., 1977

Ohio University, B.A., 1973

Awards & Honors

- Burton Awards for Legal Achievement, 2005
- Selected for inclusion in *Super Lawyers* by *Ohio Super Lawyer* magazine in 2006-2008
- FBI Director's Community Award, 2007

