

**Video:** *Nathan Mueller defrauds ING* (7:25 min. total video length)

<http://www.fraudweek.com/The-Rise-and-Fall-of-an-Embezzlement-Scheme.aspx>

Produced by the Association of Certified Fraud Examiners (ACFE)

## **Video Synopsis:**

Convicted fraudster Nathan Mueller describes the details of his four-year-long, \$8.5 million embezzlement scheme.

## **Background and Fraud Theory:**

Fraud is a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment (Black's Law Dictionary).

Most people who commit fraud are not career criminals and are often trusted staff with no past criminal history. Usually, something in the person's life motivates or prompts him or her to commit fraud. The situation could be lifestyle related, such as lavish spending or addiction problems, or could be outside of the person's control, such as a family member's catastrophic illness or job loss. These motivations can make an honest person turn to fraud.

Basically honest people who are contemplating fraud must also be able to justify their actions. Rationalizations can include feelings of overwork and lack of appreciation, a belief that they are acting in the best interest of their family, or intent to make restitution when they get back on their feet. These rationalizations allow fraudsters to knowingly and intentionally commit a dishonest act while still functioning in the workplace.

Finally, for fraud to occur, the organization needs to give the person an opportunity, through poor segregation of duties or other weak internal controls, to commit the fraud. Ineffective or absent controls allow people to believe they will not get caught because no one will review their work or investigate anomalies.

These three factors; motivation (or need), rationalization, and opportunity, are most often present when ordinary people commit fraud. Together, they are referred to as the "fraud triangle". The goal of any good internal control system is to break the triangle by removing one of the factors. It is unlikely that an employer can significantly influence people's motivations or rationalizations. Therefore, taking away the opportunity to commit fraud by implementing and maintaining a strong internal control structure is an agency's best deterrent. (Internal Controls Bulletin Vol. 5, Issue 10 <http://mn.gov/mmb/images/October%2520ICB%25202013.docx>)

A red flag is a set of circumstances that is unusual in nature or a variance from normal activity. It is a warning to the presence of risk—something that could be amiss and in need of further inquiry or investigation. Red flags are not absolute indicators of guilt or defalcation but merely out-of-the-ordinary warning signs that fraud might be present.

Studies show that tips from employees and external whistle-blowers are the best way to detect fraud. Increasing the perception of detection, having proactive audit procedures, and employee anti-fraud education are three examples of ways organizations try to deter people from committing fraud.

For more background specifically on Nathan Mueller's fraud, facilitators are encouraged to see the following:

<http://www.fraudconferencenews.com/home/2015/6/23/nathan-mueller-stole-85-million-served-5-years-and-says-he-emerged-changed-man>

<https://www.youtube.com/watch?v=fkZPHoJyprk>

## Potential Discussion Questions:

### Content related:

- Do you think Nathan Mueller was a basically honest person?
- What pressures did he experience, which prompted him to engage in fraud?
- What internal control weakness gave Nathan Mueller the opportunity to begin committing his fraud?
- What types of rationalizations did Nathan Mueller voice? Do those rationalizations seem reasonable?
- What happened that eventually caused him to be caught?
- Do you think a similar fraud could be possible in your agency/department/city?

### Theory related:

- Does the state have assistance for employees experiencing pressures?
- What part of the fraud triangle can we control?
- What are some potential “red flags” for fraud?
- Have you seen red flags within your workplace?
- Have you seen instances of poor internal controls which could provide an opportunity for theft or fraud to occur?
- Would you be comfortable coming forward to report potential fraud in your workplace?

*Add additional discussion questions here:*

## Closing Remarks:

Globally, fraud costs organizations up to five percent of their annual revenue. The government sector is the second most victimized by fraud. It is an expensive burden on taxpaying citizens. It results in losses of public funds. It increases the cost of government services. It also decreases confidence in public officials and government. It affects each of us.

Each agency needs a policy for worker conduct under the statewide code of conduct policy. Statewide policy requires agencies to have designated channels for reporting misconduct. This policy also requires employees to report suspected fraud. Do you know your agency specific reporting channel?

An employee must also report certain cases of suspected fraud to the Office of the Legislative Auditor. The law protects any employee from retaliation who reports suspected wrongdoing in good faith. You can reference statute, policy, OLA contact information, and whistle-blower protections below.

- Minnesota Statute §43A.38, Code of Ethics for Employees in the Executive Branch – <https://www.revisor.mn.gov/statutes/?id=43A.38>
- Statewide Code of Conduct Policy – <http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0103-01-code-of-conduct-policy.pdf>
- Reporting to the OLA – <http://www.auditor.leg.state.mn.us/reporting.htm>
- Whistle-blower Protections – <https://www.revisor.mn.gov/statutes/?id=181.932>