

CFE UPDATE
September-October 2006

Chapter Board of Officers

President: Joseph R. Dervaes, CFE, CIA (253) 884-9303.
Vice-Chair of ACFE Foundation Board of Directors, 2003 Cressey Fraud Lifetime Achievement Award Winner, ACFE Fellow, Regent Emeritus, prior Member of the Board of Review, and the Chapter Distinguished Achievement Award Winner for 1995, Association of Certified Fraud Examiners; Founding President, Pacific Northwest Chapter/ACFE. joandpeggydervaes@centurytel.net, Vaughn, Washington; Retired.

Vice-President and Training Director: Norman J. Gierlasinski, PhD, CFE, CPA, CIA
2002 ACFE Outstanding Achievement in Anti-Fraud Education Award Winner, and the Chapter Distinguished Achievement Award Winner for 1996, Association of Certified Fraud Examiners; Professor of Accounting, Central Washington University (Des Moines Center) (206) 439-3800, Extension 3825.
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Secretary-Treasurer: Roger B. Gulliver, CFE, CPA, CISA, CBA
President, Gulliver and Associates PS (253) 735-2392; the Chapter Distinguished Achievement Award Winner for 2000; rbg1@mindspring.com, Auburn, Washington

Director-At-Large: Bernadette McBride, CFE, CPA
Senior Investigator/Financial Examiner, Washington State Department of Financial Institutions, Securities Division, (360) 791-8824; the Chapter Distinguished Achievement Award Winner for 2004. bmcbride@dfi.wa.gov, Olympia, Washington

Director-At-Large: Robert A. Goehring, CFE, CPA
Audit Manager, City of Kent - Finance Department, (253) 856-5262; the Chapter Distinguished Achievement Award Winner for 2005; rgoehring@ci.kent.wa.us, Kent, Washington

Association and Chapter Fraud Training and Meeting Dates

October 16-17, 2006. Joint Chapter and ACFE Two-Day Fraud Training Class at the Doubletree Hotel, 18740 International Boulevard; SeaTac (across the street from SeaTac International Airport), (206) 246-8600.

The topic is: Investigating by Computer. The ACFE has not yet announced the speaker for this two-day class.

Note: The Association will provide breakfast pastries and mid-morning and mid-afternoon refreshments on the both days of this training class. The Association will provide lunch only on the first day of this training class. Attendees will be on their own for lunch on the second day. For Members of the Pacific Northwest Chapter/ACFE, the Chapter will sponsor your lunch on the second day. The Chapter Board of Officers will assist with registration duties for this class.

December 1, 2006 (Friday). Joint Chapter/WSCPA=s 10th Annual Fraud Conference at the SeaTac Marriott Hotel; 3201 South 176th Street, SeaTac (across the street and up the hill a short distance from SeaTac International Airport). The hotel telephone number is (206) 241-2000 or toll free at 1-800-228-9290. The registration fee for members of the WSCPA and the Pacific Northwest Chapter is \$195 (estimated) for this conference. There is also a \$10 (estimated) daily parking fee if you drive your car and park in the hotel parking lot. Car pooling is recommended to reduce the nominal cost of parking. Registration and continental breakfast is at 7:30 a.m. The conference begins at 8:00 a.m. and ends at 5:00 p.m. Register directly with the WSCPA by calling 1-800-272-8273 (Bellevue, WA). The conference includes eight hours of continuing professional education credit. The course registration form can also be obtained from the WSCPA=s web site at www:wscpa.org. You must call the WSCPA to actually register for the conference. Ask for Rachel Ingalls, Conference Administrator.

Colin Parcher, CFE, Manager, Investigative Services, Financial Institutions Commission, Surrey, British Columbia, Canada. Colin is the President of the Vancouver B.C. Chapter/ACFE. His topic is: Linking Mortgage Fraud, Identity Theft, and Marijuana Grow Operations.

Brock Phillips, CFE, CPA, Senior Forensic Accounting, Financial Integrity Unit, Microsoft, Redmond, WA. Brock was a speaker on the topic of: The CFEs Job Security: Internal Controls and Employee Theft at the ACFE Annual Fraud Conference in Las Vegas, NV in July 2006. His topic at our Annual Fraud Conference will be: Internal Controls and Employee Theft.

Patrick De Langis, CPA, CFFA, Director of Litigation and Forensic Accounting Services, Berntson Porter and Company, PLLC, Bellevue, WA. His topic is: Small Business Fraud B Creating the Self-Reliant Client.

Tim Wood, Special Agent, U.S. Secret Service. His topic is: Counterfeit Currency B Know Your Money.

President Joe Dervaes and Vice-President Norm Gierlasinski will co-chair the 10th Annual Fraud Conference.

(1) Links to ACFE and Chapters

The Board of Officers has identified the following CFE Chapter web-sites that may be useful to our Members. Here they are:

Association of Certified Fraud Examiners B www.ACFE.com

Pacific Northwest Chapter/ACFE B www.fraud-examiners.org

Oregon Chapter/ACFE B www.oregon-acfe.org

Spokane Chapter/ACFE B www.spokane-fraud.org

Vancouver, B.C., Canada Chapter/ACFE B www.cfevancouver@yahoo.cca

(2) Additional Fraud Links

The Board of Officers provides the following additional links to its Chapter Members as a public service. Here are just a few of them:

Complaints about Internet Fraud may be filed with the Internet Fraud Complaint Center (www.ifccfbi.gov).

Complaints about e-mail and mail fraud may be filed with the U.S. Postal Inspection Service (www.usps.gov/postalinspectors). The primary use is for Nigerian (and other African countries) fraud e-mails or letters that are received. PS Form 8165 (Mail Fraud Report) lists many other uses as well. This form may be downloaded and then mailed to the U.S. Postal Inspection Service to file a complaint and submit the fraudulent document received. The mailing address is U.S. Postal Inspection Service, Inspection Service Support Group, 222 South Riverside Plaza, Suite 1250, Chicago, IL 60606-6100.

The U.S. Postal Inspection Service web-site lists additional links to the The Chamber of Commerce and the Better Business Bureau (www.bbb.org), county or state Office of Consumer Affairs. In this state, that=s the Washington Attorney General=s Consumer Protection Division at www.wa.gov/ago, or nationally at www.naag.org. The Federal Trade Commission can be reached at www.ftc.gov.

Identity Theft links are at the Identity Theft Unit sponsored by the Washington State Patrol and the Washington State Department of Licensing at www.dol.wa.gov; www.idtheftcenter.org; www.consumersunion.org; and www.consumer.gov/idtheft.

John E. Reid and Associates, Inc. (Fraud Interview Training), Chicago, IL, www.reid.com. The Reid Preferred Group of Associations (RPGA) number for the Pacific Northwest Chapter/ACFE is A20-049. The RPGA number must be shown on the registration form in order to receive a discount on seminar registrations or to purchase products.

(3) Chapter Member in the News

On August 18, 2006, Chapter Member Dennis Wintch, a former reserve police officer, did his duty and captured a suspect running from the law. Here's a brief summary of the article quoted from the Everett Herald newspaper:

A former reserve police officer working in central Everett tackled and detained a man suspected of attempting to run over a police officer early today. The man was the focus of an intense search that began at about 9:30 a.m., closing streets and some businesses and bringing dozens of police officers from around Snohomish County. He was arrested just before 1 p.m. The search began after police shot at the man after he pinned an officer between the vehicle he was driving and a parked car. The man was last seen after he crashed the car in the 3800 block of Rucker Avenue and ran away. The man was captured by a former Everett police reserve captain who was working on a building in the 3700 block of Wetmore Avenue and spotted him walking nearby. The suspect ran and the former reserve officer chased him and threw him to the ground.

Dennis was a part of the television news coverage of the event that evening. Apparently, the suspect began the day with a domestic violence event. After being confronted by the police, the suspect used his car to attack the police officer. The police officer returned with weapons fire. The damaged vehicle crashed a few blocks away and the suspect fled on foot. The suspect eluded police for several hours. He was again spotted by a newspaper reporter who contacted the police. Dennis confronted the suspect who ignored his request to stop, indicating that he had done nothing wrong. Dennis then took the suspect down and subdued him until police arrived on the scene.

Congratulations to Dennis for going above and beyond the call of duty of a private citizen in assisting police to make the arrest in this case. You represent our CFE Chapter well.

(4) Chapter President Receives Prestigious WFOA Award

Upon his retirement from the Washington State Auditor's Office, the Washington Finance Officers Association recognized President Joe Dervaes' training contributions to the organization at its Annual Conference at the Greater Tacoma Convention and Trade Center on September 14, 2006. The Association presented Joe with a plaque at its Annual Business Luncheon Meeting honoring him for his contributions to the success of its training mission for finance officers in the State of Washington. It also awarded him the prestigious honor of an Honorary Lifetime Membership to WFOA, with all the rights and privileges pertaining thereto. At the presentation, the 600 members attending the conference gave Joe a standing ovation to recognize his achievements over the past 20 years.

Joe's brief remarks accepting the award were: "It has been an honor and a privilege for me to be your fraud advisor during the past two decades. Always

remember what I told you -- When it comes to internal controls, you must monitor, monitor, monitor!@

Congratulations to Joe for his outstanding contributions to fraud education not only in the State of Washington, but throughout North America over his 22.5 years of service as the Audit Manager for Special Investigations for the Washington State Auditor=s office. During the years, Joe has made fraud presentations to over 2,500 finance professionals each year on a wide variety of topics. In recent years, he has been speaking an average of once a week, every week, each year, every year. This level of commitment demonstrates Joe=s passion about fraud education. You represent our CFE Chapter well. And, congratulations on your much deserved retirement after 42.5 years of federal and state service in the audit career field as well.

(5) Vice-President=s Report From the Chapter Representatives Meeting at the ACFE=s Annual Fraud Conference

Vice-President Norm Gierlasinski has submitted his report to the Membership from the ACFE=s Chapter Representative Meeting held in conjunction with the Annual Fraud Conference on Sunday, July 9, 2006. This year, the conference was held at the Venetian hotel in Las Vegas, NV. His report is summarized in a document sent to us by Jeff Kubiszyn, ACFE Chapter Liaison Manager, that was sent to all Members by separate e-mail message. It covered four scenarios dealing with various aspects of Chapter operations. Major questions dealt with: (2) What can be done to improve meeting attendance?; (2) What ideas do you have to make the Chapter more attractive to members?; (3) How do you work together as a team to make the Chapter successful?; and, (4) How do you find speakers for Chapter fraud seminars?.

If you are interested in additional details about these scenarios as well as the answers to these questions, please click on the four scenario headings in the August 2006 copy of The Chapter Register, the Official ACFE Chapter Newsletter that was sent to the Membership, under the heading of Chapter Representative meeting in Las Vegas Recap.

(6) Call for Recurring Personal Items of Interest to the Chapter Membership

If you are a Member of the Chapter, please notify Joe Dervaes, Editor of the Chapter Newsletter, about your activities and professional achievements so that we can announce them to the Membership in our bi-monthly Chapter Newsletter. Please submit your information by e-mail to the following address:
joeandpeggydervaes@centurytel.net.

(7) Other Training Opportunities

(a) John Reid and Associates, Inc. will be offering four 3-day training classes on the topic of The Reid Techniques of Interviewing and Interrogation during 2006. The date of the final class this year is: November 6-9, 2006. All classes will be held at the Madison Renaissance in Seattle. This Chicago, Illinois, training sponsor can be reached at www.reid.com. The Reid Preferred Group of Associations (RPGA) number for the Pacific Northwest Chapter/ACFE is A20-049. The RPGA number must be shown on the registration form in order to receive a discount on seminar registrations or to purchase products. Registration for these classes must be handled directly with John Reid and Associates, Inc.

(b) The sixth annual ASG Security Summit and Expo, titled The New Language of

Security: The Expression of Value in a Bottom-Line World, takes place on October 19, 2006 at Qwest Field in Seattle, Washington. It is the leading venue for the emerging new language of security, and provides real opportunities to improve our approach to physical and logical security. Compelling in scope and significance and under-girded by the objectivity of national thought leaders, The ASG Security Summit and Expo links the office of security with the boardroom offering a bridge between strategy and execution; standards and tactical implementation.

Attendees include CSOs, CIOs, CISOs, CTOs, VP/Directors of IT and Security, Network Managers, Risk Managers, Auditors, and Senior Business Executives whose jobs include enterprise-security responsibilities and critical infrastructure protection. To learn more about this year's event and its speakers and topics, visit www.asgsecuritysummit.com, or to register now go to: <http://www.asgsecuritysummit.com/register.cfm> or call 888-284-3553 x7743.

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July-August 2006 Investigator Web Tip

The Role of Motivation in Detection of Deception Research

Early reports on the accuracy of the polygraph technique were largely anecdotal. For example, if ten suspects were administered a polygraph examination on a particular crime and one of them failed and subsequently confessed, the technique was reported to be 100% accurate. Once proper research methodology was applied, where random polygraph charts of verified truthful and deceptive suspects were blindly scored by a number of trained examiners, the actual accuracy was shown to be in the 90% range.

In the 1970=s the academic community started researching the polygraph technique using mock crime paradigms. A typical laboratory study involved instructing half of the subjects to take money from a location in a room and the other half not to take anything from the room. These subjects were then administered a polygraph examination to determine how often the examiner could correctly identify "guilty" or "innocent" subjects. The polygraph technique does not fare well in laboratory studies. Most of these studies report accuracies slightly above chance levels. In fact, there is such a discrepancy between laboratory and field research within the polygraph technique that when conducting meta-analysis or other intra-study comparisons, the findings are always treated separately, with no effort to generalize laboratory results to the field.

Differences between laboratory and field research are not restricted to the polygraph technique. The same pattern emerges when evaluating the behavior symptoms of actual criminal suspects compared to laboratory subjects who participated in a mock crime or other contrived situation. For example, when evaluators are asked to view video-taped interviews of laboratory subjects who have been asked to play the role of a guilty or innocent person, the evaluators are very poor at identifying which subjects are lying and which ones are telling the truth. However, when evaluators are asked to do the same task using video-taped interviews of actual criminal suspects, they achieve accuracy rates far above chance levels.

What is different between subjects in a laboratory setting and actual criminal suspects? The primary difference is the level of motivation the subject experiences at the time of the polygraph examination or interview. In psychology, the construct of *motivation* is used to describe the determination or drive exerted to accomplish a particular goal. Furthermore, motivation is closely associated with how clearly a goal is defined.

A concept fundamental to all detection of deception techniques is that innocent and guilty subjects form different goals during a polygraph examination or interview. Specifically, innocent suspects form a goal of needing to be believed

whereas a guilty suspect's goal is to not be detected in his lie. Consequently, during an interview or polygraph examination an investigator is not really detecting "lies", but rather inferring truth or deception by identifying the subject's underlying goal through behavioral observations.

At this point it may be instructive to return to the motivational differences between subjects in laboratory and field studies. A laboratory subject who is lying about taking \$20 from a desk drawer is not facing significant consequences if the investigator detects his lie. During the interview the subject is not concerned that if the investigator detects his lies he will be expelled from college, lose respect or face possible criminal charges. This lack of perceived consequence will cause poor goal development and minimal effort to accomplish that goal. Similarly the innocent laboratory subject who did not take any money is also not concerned that he may be expelled from college, charged with theft or have his reputation ruined if the investigator mistakenly believes that he did take the money. Without significantly different goals, there exist no meaningful difference between the "guilty" and "innocent" subjects attitudes, perceptions or behaviors.

However, consider a group of employees being questioned about the theft of \$20 from a co-worker's purse. Each employee is facing probable termination, certain public humiliation and a possible criminal record. Under this high-motivation circumstance, innocent employees are going to form predictable attitudes toward the interview as well as the issue under investigation, e.g., high confidence in being exonerated, forming harsh judgments toward the guilty, and being comfortable speculating about possible suspects and motives for the crime. During an interview innocent suspects will be actively involved in accomplishing their goal of convincing the investigator that they did not steal the missing \$20.

Conversely, the guilty suspect who is highly motivated to avoid detection will form quite different attitudes toward the issue under investigation and the interview, e.g., exhibit a lack of confidence in being exonerated, attempt to convince the investigator that no theft occurred, appear uncomfortable and unhelpful in speculating about the crime and express forgiveness toward the guilty person. During his interview, the guilty employee will utilize all of his skills and abilities to accomplish his goal of convincing the investigator that he did not steal the \$20.

As this example illustrates, it is not the seriousness of the crime that affects a subject's motivation; the level of motivation experienced by a subject is dictated by the subject's perception of the consequences that will be suffered if it is determined (correctly or incorrectly) that he engaged in the crime. A subject's level of motivation is not only important when evaluating published research but also when considering a subject's behavior in field situations. The following circumstances each involve situations in which a subject may experience decreased motivation, and therefore offer misleading behavior symptoms during an interview:

Interviewing Subjects Facing Minimal Consequence

Some juveniles have had so much contact with the criminal justice system that they know that the worse consequence facing them is a short stay in a juvenile

home. Similarly, a recently hired employee who engages in dishonesty knows that he has little to lose if the investigator detects his deception. Under both of these circumstances guilty subjects may not form attitudes typical of a deceptive person. This is especially true when the subject has a low level of social consciousness and perceives minor punishments as a mark of honor among peers.

Fortunately, during these investigations factual analysis often points toward the probable involvement of the guilty person. A detection of deception guideline that has proven valuable in many investigations is to not allow apparent truthful behavior symptoms to out-weigh deceptive factual analysis. When investigative information points toward a particular suspect, in most situations that person should be interrogated regardless of apparent truthful behavior.

Interviewing Subjects Who Feel Immune From Consequences

There are some subjects who believe, because of their position or social influence, that they can escape consequences for acts of wrong-doing. Examples include prominent businessmen, powerful politicians, judges, high-ranking military or law enforcement personnel. Individuals who fit this description often display a feeling of entitlement as if they are "above the law."

In one-on-one allegations sometimes the accused has much more authority and credibility than the victim. Examples of this circumstance includes a teacher accused of sexual conduct with a mentally retarded student or a police officer accused of extorting sexual favors from a prostitute. Under this circumstance the guilty suspect may be quite confident that others will accept his word over that of the victim=s.

When interviewing a suspect who may fall into this category, it is beneficial to emphasize the objectivity of the investigation and analysis of evidence. In essence, the investigator is telling the suspect that neither of them can control the outcome of the investigation. In addition, it is recommended to start the interview with a statement similar to the following, "George, if you did solicit sex from that woman our investigation will clearly indicate that. On the other hand, if you did nothing wrong we will be able to prove that as well."

Interviewing a Guilty Subject Early During an Investigation

It is not uncommon for a guilty subject to be questioned early during an investigation and escape detection. Presumably, these subjects approach the questioning as "routine" and do not experience significant fear of detection during the interview. After incriminating evidence is developed and the subject is interviewed a second time, the heightened level of motivation causes the suspect to exhibit attitudes and behavior symptoms typical of a guilty person.

Just as it is always a good practice to re-interview traumatized victims or witnesses a couple of days after the initial report, it is often prudent to conduct a second interview of initial subjects even if there were no apparent behavior symptoms of deception during the first interview. The mere fact that the subject is being questioned a second time will heighten the motivation level of both

innocent and guilty subjects, causing their behavior to be more definitive and reliable.

Interviewing Subjects With Low Intelligence

To appreciate the possible consequences associated with success or failure of accomplishing a goal involves assessment, comprehension, judgment and knowledge, e.g., intelligence. A suspect with a lower intelligence may understand the difference between lying and telling the truth, but not fully grasp the concept of going to jail, losing respect and trust or the financial significance of paying a substantial forfeiture. Investigators should always be cautious in drawing inferences based on behavior symptoms exhibited by subjects with low intelligence.

Approaching A Subject As If He Is Innocent

An innocent subject will not form predictable attitudes and perceptions if he is not concerned that the investigator might believe he is involved in the crime. Clearly, it would be improper for the investigator to start an interview in the following manner, "Mike, as you probably know there was a fire in your neighbor=s garage over the weekend. I certainly don=t think that you had anything to do with starting it, but I still need to ask you a few questions about it. Would that be alright with you?"

The innocent suspect must experience the need to convince the investigator that he did not commit the crime. Only when the innocent suspect understands that the most effective way to be exonerated is to help the investigator solve the crime, does he manifest predictable attitudes and perceptions e.g., offers cooperation, discusses possible suspects, eliminates possible suspects, makes admissions against self-interest, forms harsh judgments toward guilty, etc.

A fundamental principal of detection of deception theory is that there should be no difference between the interview of a suspect who is more likely innocent or guilty of a crime. Both suspects must form a specific goal during the interview and be motivated to accomplish that goal. The following introduction satisfies this requirement: "Mike, as you know there was a fire in your neighbor=s garage over the weekend and I am interviewing people who were in the area of the fire. Some of the questions I=ll be asking you I already know the answer to. The most important thing is that you be completely truthful with me before you leave today. Before we go any further, let me ask, did you start that fire?"

Interviewing Suspects Who Have Given Up

An interesting phenomenon within the polygraph technique is that if a subject becomes convinced that the test is infallible, there is a risk that the subject will become emotionally unresponsive. The entire premise of the control question polygraph technique is built upon the subject directing psychological attention toward a particular question type (control question for truthful, relevant question for deceptive). The focus of the subject=s attention is identified through physiological changes resulting from the subject=s fear that he will show a "lie response" to that question. On the other hand, if the subject believes that the polygraph will most certainly indicate that he is lying the subject will simply

answer the test questions and not experience a significant emotional response; for the polygraph technique to function as designed, the deceptive subject must have some hope that he can get through the examination without being detected and the truthful subject must have some fear that the results may indicate that he was involved in the crime. Psychologically, both the innocent and guilty subjects must believe they have some control over the outcome of the examination.

The same is true during an interview. This is one of the reasons an investigator should not become accusatory during an interview or overwhelm a subject with incriminating evidence early during an interview. A guilty subject who perceives that the investigator is already convinced that he committed the crime may simply withdraw and not form attitudes or perceptions typical of a guilty person. For similar reasons, a subject who is questioned shortly after committing a crime and is knee-deep in incriminating evidence may not form attitudes typical of other guilty suspects who, during the interview, perceive a possibility of getting away with their crime if they are convincing enough.

In conclusion, there is no such thing as a lie detector. When people lie or tell the truth they do not produce some identifiable pattern on a polygraph chart nor do they engage in any unique observable behaviors. Rather, detection of deception techniques have been developed to infer truth or deception based on identifying the different goals that guilty and innocent people tend to form when questioned about an act of wrong-doing. However, it is not engaging in the act of wrong-doing that causes the goals to form. It is the perceived consequence associated with the act that causes the innocent person to be strongly driven to want people to know that he did not commit the act or the guilty person to do everything in his power to try to convince people that he did not commit the act., e.g., motivation. The effects of motivation are not only important when reviewing research studies but also during field interviews. Just because an investigator is interviewing an actual criminal suspect does not necessarily mean that the suspect is operating from a high-motivation perspective.

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