

Fraud: Real World Lessons from Bank Investigations

2026 Financial Institutions Virtual Symposium

forvis mazars

Today’s Presenter



Jennifer Walton
Director / Forensics & Valuation

704.367.5960
jennifer.walton@us.forvismazars.com

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Agenda

- Statistically Speaking
- Profile of a Fraudster
- Anatomy of a Fraud
- How a Fraud Starts
- Real Life Examples
- The Importance of Deterrence
- Questions and Answers

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Industry	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	437	13%	10%	17%	13%	41%	7%	4%	17%	5%	3%	8%
Government and public administration	217	19%	13%	6%	10%	48%	11%	6%	18%	15%	2%	7%
Manufacturing	192	21%	5%	4%	9%	61%	15%	7%	41%	8%	1%	3%
Health care	140	32%	6%	7%	10%	44%	14%	6%	17%	11%	2%	8%
Retail	110	19%	10%	15%	9%	40%	10%	6%	39%	7%	11%	20%
Construction	92	35%	13%	8%	13%	50%	11%	5%	23%	11%	1%	9%
Technology	89	19%	6%	8%	7%	64%	15%	3%	25%	9%	0%	1%
Energy	89	20%	6%	6%	4%	58%	18%	6%	29%	8%	4%	10%
Education	82	30%	6%	20%	7%	34%	28%	2%	20%	21%	4%	16%
Religious, charitable, or social services	82	27%	10%	10%	15%	37%	24%	1%	15%	10%	2%	13%
Transportation and warehousing	76	24%	1%	3%	1%	54%	12%	4%	30%	4%	0%	7%
Insurance	76	20%	3%	4%	13%	46%	11%	8%	8%	14%	0%	5%
Food service and hospitality	53	30%	6%	11%	19%	45%	25%	11%	28%	19%	6%	15%
Agriculture, forestry, fishing, and hunting	52	35%	15%	13%	15%	65%	21%	13%	35%	15%	4%	12%

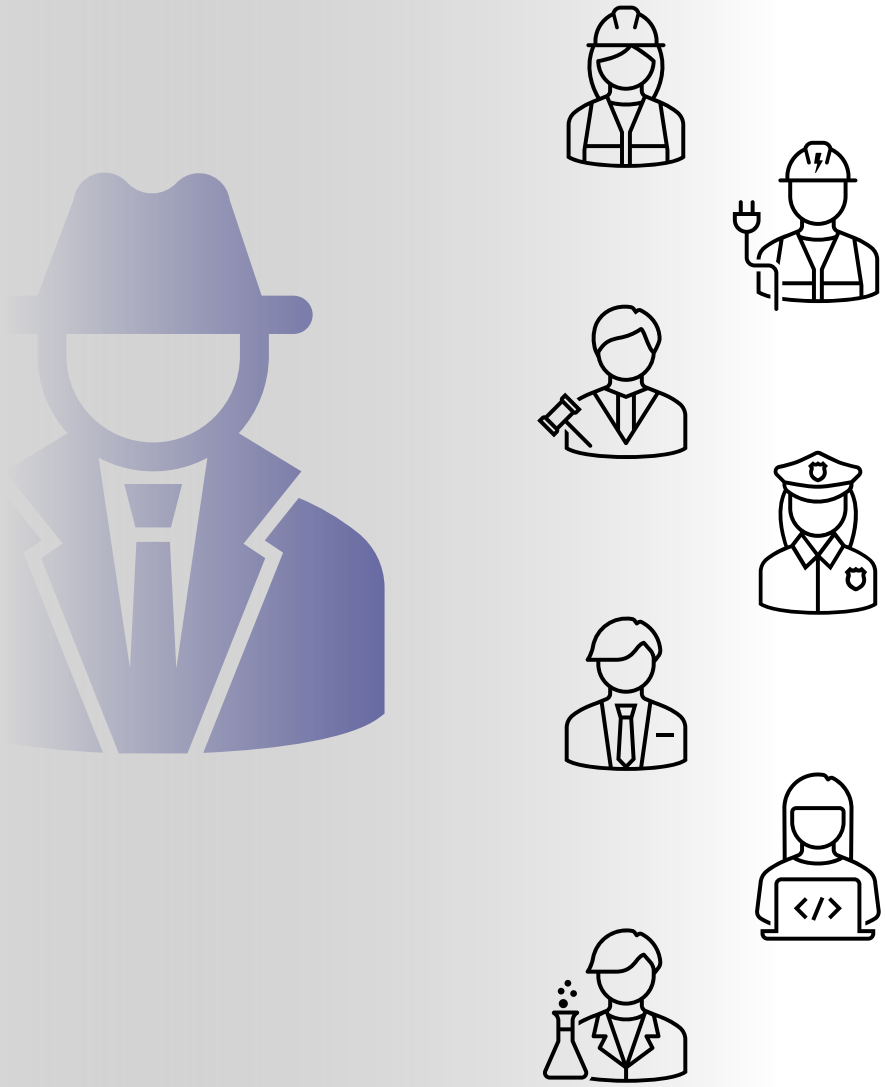
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Profile of a Fraudster



Appearances Are Deceiving



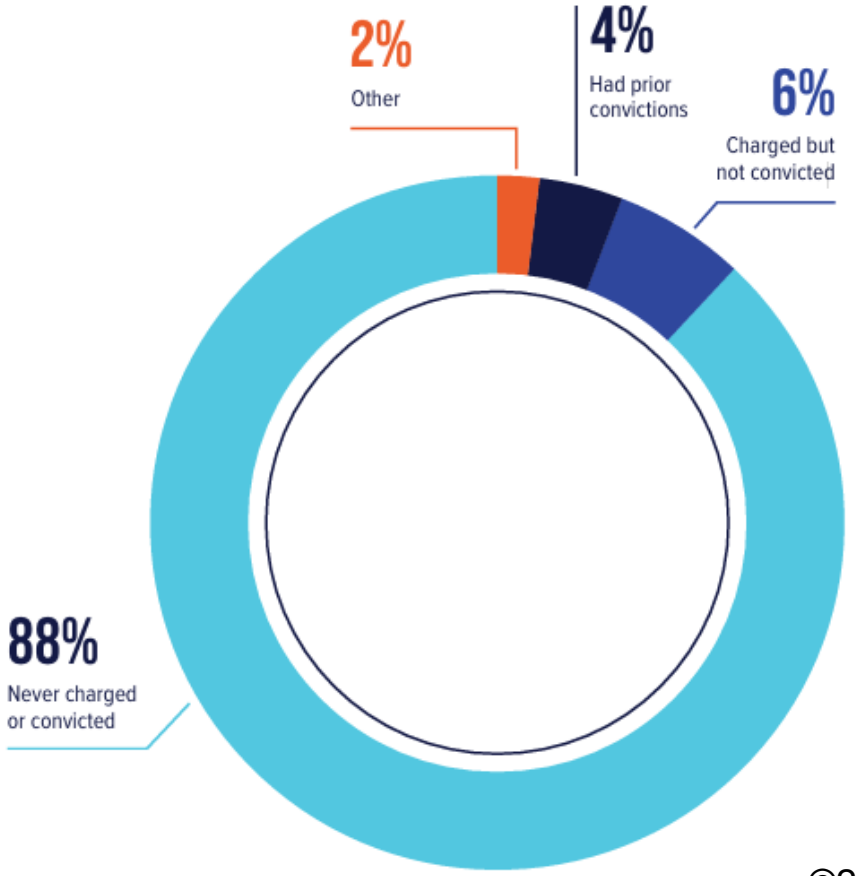
The most dangerous fraudster is the one trusted absolutely.

- Public Servants
- Star Employees
- Friends
- Family Members
- Advisors
- Consultants

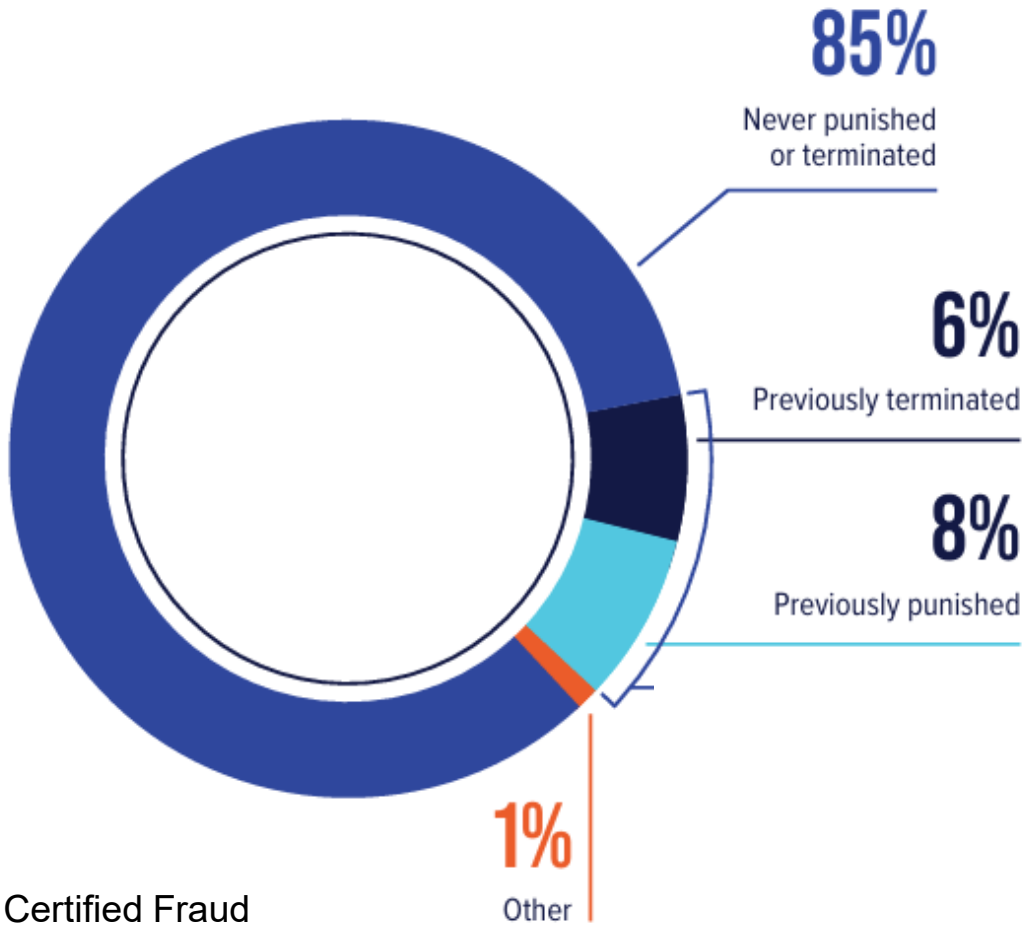
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By the Numbers: Have Perpetrators Had…

Prior Fraud Convictions?



Employment Related Disciplinary Actions for Fraud?



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Anatomy of a Fraud



Defining What's Important



Integrity

Firm adherence to a code of especially moral or artistic values.



Ethics

The discipline dealing with what is good and bad and with moral duty and obligation.



Trust

Assured reliance on the character, ability, strength, or truth of someone or something.



Review

A critical evaluation.

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Defining What's Important



Skepticism

An attitude of doubt or a disposition to disbelieve either in general or toward a particular object.



Judgment

Forming an opinion or evaluation by discerning and comparing.



Consultation

To ask the advice or opinion of.



Approve

To accept as satisfactory.

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FRAUD

Intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right.



Source: Merriam-Webster Dictionary

FRAUD



Intentional perversion of truth

Source: Merriam-Webster Dictionary

Donald Cressey's "Fraud Triangle"

*** Personal integrity may be the most important factor in keeping a person from misappropriating assets. ***



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How a Fraud Starts



Fraud Pressures & Incentives



Reasons for fraud come in many forms:

- Mid-life crisis
- Alcohol/Drugs
- Gambling
- Financial difficulties
- Medical costs due to illness
- Work pressures
  - Meet budgets
  - Tight deadlines

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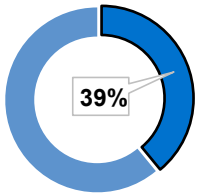
Behavioral Flags

Perpetrators displayed red flags in 75% of cases.

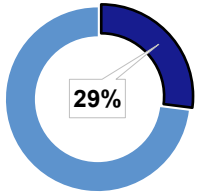
The most common include:



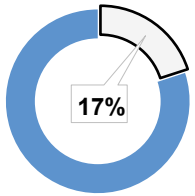
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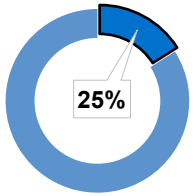
Living Beyond Means



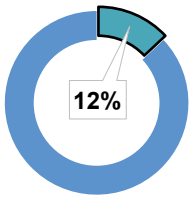
Financial Difficulties



Unusually Close w/ Vendor/Customer



No Behavioral Red Flags



Control Issues, Unwillingness to Share Duties

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Real-Life Examples



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Golden Child – Nominee Loans



What happened?

- Nominee loan scheme
- Cash loans were common
- Targeted impressionable, long-standing customers
- Whistleblower ignored



Response to Internal Auditor

Here is an example of behavior dismissed because of a “Golden Child” reputation

Damn [redacted], sounds like you have a [redacted] for him. I don’t think some of your facts are correct, but I am leaving to go to Florida in about 30 minutes and I will be gone until Monday, August 5th. But, I will leave you with a few facts of our own and [redacted] can elaborate further.

Today, his LOC is fully tapped. But, if you check the history, the line does revolve numerous times weekly.

His DDA is overdrawn, but we have some deposits to make on him tomorrow to reconcile the account. Mr. [redacted] does run occasionally overdraw, but I keep it within reason and charge him for every item.

All of his loans are in the grace period, 15 days, past due. With the exception on the renewal that [redacted] needs to sign.

When we finance a car that is on the floor plan and it is only floored for $2500, that is all we apply back to the floor plan, he does get the difference.

Yes, and sometimes we make loans to customers that don’t have spotless credit, but the majority of our losses are small compared to what we make by charging 12.5%.

For the majority, we finance autos with in loan value, but sometimes we do go over.

Standard repo fee is $300. Sometimes we do stick money in these cars to make it worth our while.

This line of credit and term loans were approved by [redacted]. We have the autos and real estate all cross collateralized and are in a decent collateral position. Mr [redacted] has past the last 4 annual examinations we received from the FDIC and the state.....even [redacted] looked at him this year with no problems.

I know [redacted] needs to step up the review on the floor plans and we have discussed it.

Right now, I don’t lose any sleep on the [redacted] relationship. All of his debt is amortizing with the exception of his LOC. Also, in the scheme of things, a $250K secured LOC doesn’t worry me much.

I don’t want to get into an email contest, but I don’t know exactly what you want us to do? I plan on not worrying too much about [redacted] for the next 7 days.

Lessons Learned

- Trust is not a control
- Person committing the fraud is going to lie
- Segregation of duties is critical
- Formally document internal audit findings
- Analytics of loan data and CTR activity



Collusion – Cash Theft



What happened?

- Cash missing from vault
- Identified by IT Director based on conversations on internal messaging system
- Curious internal auditor



How did it happen?

- Collusion
  - Head teller
  - Teller
  - CFO
- Theft of currency
- Substance abuse, family matters, extramarital affairs, and financial difficulties



Lessons Learned

- Periodic, independent cash counts
- Employees need to understand purpose of controls
  - Process of substance, not just policies
- Don’t ignore obvious red flags



The Importance of Deterrence



How to Deter Fraud?

It is imperative that people in your organization:

1. **Know you are looking for fraud.**
2. **Think they will get caught.**

Deterrence Control Examples	Management	Employees	Policies & Procedures
	▪ Communicate ethics and compliance expectations ▪ Support Internal Audit	▪ Confirm compliance with Code of Conduct ▪ Whistleblower rewards	▪ Job duty rotations ▪ Vendor relationship review ▪ Expense report review

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Questions?

Thank You!

Jennifer Walton, CPA, CFE, MAFF
Charlotte, North Carolina
jennifer.walton@us.forvismazars.com



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