

This article points out that poor corporate governance contributed to Sachdeva's fraud occurring. We can examine the fraud triangle to give us an idea of why Sachdeva was committing this fraud. With that in mind we can contemplate some corporate governance strategies to help improve the deterrence of fraud. We can then look at some fraud mitigation strategies.

Fraud Triangle

We can use the fraud triangle to make an analysis of why Sachdeva became involved in this particular fraud. The element of pressure in this case is financial in nature. Sachdeva was motivated by greed, living beyond one's means, and the threat of poor credit as a result of her expenditures on her credit card. It is also possible that the threat of unexpected financial needs may have played a role in the pressure as the mounting credit card bills would consume all of her resources not leaving anything left for emergencies or any other problems that life could possibly introduce into the equation. It is possible that work related pressures could also have played a role in the fraud. Albrecht, Albrecht, Albrecht, and Zimbelman tell us that pressures such as lack of recognition on the job, lack of job satisfaction, being overlooked for a promotion, and feeling underpaid could have all contributed to the problem (2009, pp. 37). The element of opportunity here dealt with the control environment. As the author of the article stated, Koss was not required to abide by Sarbanes Oxley; internal control section 404(b). The lack of implementation of these rules led to a lack of controls that prevent and/or detect fraudulent behavior. This is one of the opportunities that Sachdeva took advantage of. Another control that would have helped prevent and/or detect fraudulent behavior is a more effective internal audit department. With this control being more effective it is possible that Sachdeva's fraud would have been detected at an earlier stage. It is also possible that segregation of duties would have helped prevent this fraud. Sachdeva's access to cashier's checks and wire transfers coupled with her position as an executive accounting officer is a weakness that should

have been addressed. Independent checks by the independent auditor that were more thorough may have also helped detect this fraud before it ballooned to such a substantial amount. All of these weaknesses in internal controls contributed to opportunities for Sachdeva to commit fraud. Sachdeva could have rationalized various reasons to commit fraud. Albrecht, Albrecht, Albrecht, and Zimbelman discuss various reasons such as my boss owes it to me, I am only borrowing the money and will pay it back, I deserve it, It's for a good purpose, we'll fix the books as soon as this financial difficulty is over with, and sacrifice of integrity over reputation in order to meet financial obligations (2009, pp. 50). I think that the last reason, sacrifice of integrity over reputation in order to meet financial obligations is a possibility in this case as Sachdeva had mounting credit card expenses to pay.

Lack of Effective Corporate Governance and a Lax Ethical Environment

In this case the author of the article points out that strong corporate governance leads to less incidences of fraud. Strategies for corporate governance that would help Koss most certainly fall under creating a culture of honesty, openness, and assistance. In this particular case there is no instance of a person being hired that is not honest as a result of ineffective candidate screening. Creating a positive work environment may have helped deter Sachdeva from stealing from the company. A very thorough code of conduct besides the two page code that exists could help direct the actions of any employee who is aware of the fraud. An employee assistance program also may have helped deter Sachdeva from committing this fraud if she had someone to turn to within the company to explain her problems that led to her spending. Problems such as maintaining a certain image to family and friends as an executive that she didn't think the company was currently providing the means to achieve. Discouraging collusion amongst employees would have also helped, as Sachdeva had help.

Fraud investigation as a strategy for fraud mitigation and other fraud mitigation factors

Although some fraud mitigation strategies can be very expensive and out of the reach of Koss Corporation, there are some things that Koss could have implemented to help improve their fraud mitigation strategy. If effective fraud auditing were in place and red flags were detected that may have given strong predication and an investigation could have been started that could have uncovered the fraud before American Express uncovered the problem. Albrecht, Albrecht, Albrecht, and Zimbelman tell us that after considering the cost of the investigation, amount stolen, possibility that the investigation will be uncovered, risks if the investigation being performed or not being performed, public relations outcomes of the latter, and the nature of the fraud an investigation could have been started (2009, pp. 206-207). During the investigation a vulnerability chart would have been useful to help determine the exact nature of the fraud. After utilizing a vulnerability chart it is possible that Sachdeva would have showed up as a possible perpetrator. With this information she could have been put under surveillance to monitor her spending habits or invigilation could have been used to determine if the problem with company wire transfers and cashier's checks would be resolved. Other potential fraud mitigation strategies include a whistle blower hotline, which the article mentions as a possible way to detect the fraud before American Express did and antifraud training for employees. One or all of the strategies would have helped Koss more effectively mitigate fraud. A final note on fraud mitigation and how effective fraud auditing and other methods can help, Albrecht, Albrecht, Albrecht, and Zimbelman state,

Certain antifraud controls can have a measurable impact on an organization's exposure to fraud. Organizations that had anonymous fraud hotlines suffered a median loss of \$100,000, whereas organizations without hotlines had a median loss of \$200,000. There were similar reductions in fraud losses for organizations that had internal audit departments, that regularly performed surprise audits, and that conducted antifraud training for their employees and managers (2009, pp. 505).

The fraud triangle paints a picture for us that show us some of the possible reasons why Sachdeva committed the fraud. Financial pressures, a weak control environment, and various rationalizations such as sacrifice of integrity over reputation are all variables that fit into the fraud triangle in this case. Weak corporate governance at Koss led to a lax ethical environment. This lax ethical environment helped contribute to Sachdeva's fraud. The short code of conduct did not provide any insight for employees on how to deal with a fraud if they were aware of one. This was most certainly a contribution to the lax ethical environment. Effective fraud mitigation strategies at Koss could have prevented the fraud before it ballooned into the problem that American Express detected. Proactive fraud auditing that could have lead to an investigation is certainly a strategy that could have nipped this fraud in the bud.

References

Albrecht S., Albrecht C., Albrecht C., Zimbelman M. (2009). *Fraud Examination*. Mason, OH: South-Western.