P-Card Guide: Controlling Fraud, Managing Spend

Presenter:
Phillip Hurd
Chief Audit Executive
Georgia Institute of Technology
phillip.hurd@gmail.com
www.Philliphurd.com

Objectives
• How the information age is used to execute fraud schemes
• How support documentation can be forged
• How deception is in purchasing techniques
• Managing and controlling spend
• Maximizing appropriate use
• Automated control systems

Understanding Debt Culture
• 1900 – Debt was SIN
• 1910 Sears catalog – Buying on credit is folly.
• JC Penny – Just Cash – No credit
• Henry Ford
• 2005 Stat - 70% of Americans live paycheck to paycheck
How did we get here?

• Where did credit cards come from?
  – February 8, 1949 by Frank McNamara, Ralph Schneider, and Matty Simmons at Major’s Cabin Grill, a restaurant adjacent to their offices in the Empire State Building.
  – 1958 Bank AmeriCard
    • 1976 Transformed to Visa
    – 1958 American Express
    – 1970 15% of Americans owned credit cards
    – 1986 Sears Creates Discover
    – 2007 – 6 Billion credit card offers went out
      • 18 million Americans accept

P-Card Credit & Fraud

• ID Theft
• Ready Access to Institution Money
  – Money spent in investigation, legal fees, loss of business.
  – Loss of ability to use Procurement Cards
• Institutional Reputation to Drain Accounts
  – Institutions that can’t protect their clients are great for fraud schemes

The Basics

• What is a credit card:
  – A credit card system is a type of retail transaction settlement and credit system.
  – Named after the small plastic card issued to users of the system.
  – Different from a debit card in that the credit card issuer lends the consumer money rather than having the money removed from an account.
  – Different from a charge card (though this name is sometimes used by the public to describe credit cards) in that charge cards require that the balance be paid in full each month.
Low Security by design

- The goal of the credit card companies, as they say, is not to eliminate fraud, but to "reduce it to manageable levels", such that the total cost of both fraud and fraud prevention is minimized.
- The low security of the credit card system presents countless opportunities for fraud. This opportunity has created a huge black market in stolen credit card numbers, which are generally used quickly before the cards are reported stolen.
What's the Mitigation Plan?

Train Merchants (i.e. schools) to:
- Limit the Storage of Card Information
- Destroy obsolete cardholder information
- Promptly report security breach
- Use contracts and certified 3rd parties in the chain to process or store transaction data

Establish Safeguards:
- Identify Critical Data Storage
- Build really expensive data centers

Who else is in the mix?
- Banking Partner
- Merchant Provider
- Credit Card Processor
- IT/Business Staff
- Ticketing Company
- Credit Card Companies
  - Visa, Master Card, Discover Card, American Express

Procurement Cards

- Easy Paths to Fraud
  - Unauthorized transactions by other than cardholder
    - Lost or stolen cards
    - Compromised account numbers
  - Not fault of cardholder
    - Institution assumes zero liability
    - Covered 100% under contract

- Fraud Detection efforts
  - VISA Fraud Detection System
    - Back end reporting of certain exceptions
    - Electronic Reporting
    - Daily downloads
    - Timely cardholder reconciliation
Procurement Cards

- Pesky Preventive Controls
  - Card-based controls
  - May be customized
  - Transactions not within established parameters declined at POS

- What Most Institutions Consider
- Procedural Controls
  - Policies and Procedures
  - Training
  - Cardholder agreement

How to Make it Happen?

- Social Engineering
  - The art of manipulating people into performing actions or divulging confidential information.

- Confidence Trick
  - A confidence trick or confidence game, more often known as a con, scam, swindle, gaff, trick, fum, or scheme, is an attempt to swindle a person or people (known as the "mark", or sometimes "griftee") which involves gaining his or her confidence.

- Pretexting
  - Pretexting is the act of creating and using an invented scenario (the pretext) to persuade a target to release information or perform an action.

Case #1

What did she steal?

Video 1
Video 2
Case #2, 3, 4, 5
• Jennifer Tatum-Root
  – Video
• SECME
  – Video
• Angela Yvonne
• Jana Chambers

Publicity

Case #6
• Largest of the PCard Thefts
  – Video
• Timeline
  – Visio
• What did she steal?
  – Video
  – Spreadsheet
  – Perspective
• In the end...
  – Video
  – Video
  – Video
Fun Fraud Scheme

• Proxy Purchasing
  – Set up to sell items through Amazon or eBay using fictional name
  – Set up PayPal to receive credit card payments
  – Purchase needed items with personal funds through a legitimate vendor
  – Sell the items through the proxy
  – Purchase these items with institutional funds
  – The margin is the theft and virtually impossible to detect

Fun Fraud Scheme

1. Move yourself into a position to purchase items in your company
2. Identify a legitimate need (monitor)
3. Find a local store that sells the item (electronics store - monitor $200)

Fun Fraud Scheme

4. Purchase item from a local store using your own money
5. Set up an online merchant presence (eBay, Amazon, etc…) (eBobs monitors)
6. Set the selling price of the monitor on eBobs monitors to $300 + shipping
Fun Fraud Scheme

- Use your employer’s Purchase Card to buy the monitor from eBob’s monitors for $300 + shipping
- Bring the monitor into work and keep the shipping money and overage
- All paperwork is created by legitimate third parties. Near impossible to trace without data analytics.

Repeat at appropriate Intervals

Things to note and how to detect

Notes
- Must have level three data
- Must have profile of use

Detection
- Ratio analysis of users to like items
- Test of store credentials to user information
- ID non level three vendors
- Tax discrepancies
- 1st purchase ID’s

What to do about it….

- MCC
- Data Levels
- ACL programs
- IDEA
- *Ratio Analysis*
- ONLINE System Analysis
How to Use Your Auditors

- DATA Breach
- PCI DSS
- VISA CISP
- The AUDIT...
Policies and Procedures

• HAVE A POLICY!!!!
• HAVE A PROGRAM MGT GUIDE

Questions?