

**2020 TAX EXPO
TXCPA Houston Foundation**

***Recognizing Potential Fraud
in Your Clients & Others***

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Presented by

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**In our Society
Fraud is a
Growth Industry**

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Why is Fraud Growing!

**Our attitudes have changed
and are getting worse**

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**Is it possible you will
encounter fraud in your
tax practice!**

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Danger Signs of Fraud ⁽¹⁾

- **Living beyond one's means (41%).**
- **Financial difficulties (29%).**
- **Unusual closeness to vendors or customers (20%).**
- **Excessive control issues (15%).**
- **Divorce or family problems (14%).**

[1] According to the Association of Certified Fraud Examiners "2018 Report to the Nations" on its worldwide survey for 2018 found at <http://www.acfe.com>

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Types of Fraud You Might Encounter

• Tax fraud

- **Failure to File (Sec 7203 – Misdemeanor - 1 Year)**
- **False return (Sec 7206 – Felony - does not require a tax liability – 3 Years)**
- **Evasion (Sec 7201 – Felony - requires a tax liability – 5 Years)**
- **Aid or Assisting (Sec 7206(2) brings you into play - Felony – 3 Years)**

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Types of Fraud You Might Encounter

- **Embezzlement or theft by employee**
- **Embezzlement of theft by owner**
- **Corruption (Bribes and Kickbacks)**
- **Illegal billing scheme (such as Medicare/Medicaid)**
- **Credit or bank fraud**

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Signs of Potential Fraud

- **It just doesn't make sense. Books, documents, big picture just doesn't fit what you are seeing.**
- **Profits are good and business is booming, but there is no cash.**
- **No profits or even losses and lots of cash.**

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Signs of Potential Fraud

- **Client or employees fail to give you what you ask for timely and you repeatedly have to ask for it.**
- **Client or employee challenges you most of the time on why you want something.**
- **Employees express concerns even though they don't outright tell you.**

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Signs of Potential Fraud

- **Client intimidates others and especially employees.**
- **Client attempts to intimidate you.**
- **Client is constantly making excuses for the books, but they never seem to get straight.**

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Signs of Potential Fraud

- **Nothing reconciles.**
- **Documents look unusual and/or backdated.**
- **Client is known for lying.**
- **Client ask you, "what answer do you want?"**

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Remember what Solomon said!

“The prudent sees danger and flees, but the stupid continues on and suffers for it.”

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Also Remember

- **There is no amount of fees or income that can justify helping a client with their fraud!**
- **Do not let them take your license and your integrity!**
- **Don't let their problem become yours!**
- **Run, don't walk away, if you know the client is committing fraud!**

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If You Suspect Fraud

- **Contact your lawyer first before you take any action.**
- **If necessary, build your privileged/confidential file to be able to defend yourself.**
- **Do not publicly accuse someone of fraud.**
- **Be careful that you do not end up with a lawsuit with a charge of libel, slander or false arrest.**
- **If a special agent or government agent shows up at your door, give them your name and advise them that you want to speak to your attorney before you speak to them.**
- **Don't volunteer records without consulting your attorney.**

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More than Anything Else

**Be alert
&
less trusting!!!**

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