


MOSS ADAMS_{LLP}

CIS – Annual Conference
 Fraud & Embezzlement for your
 Local Government – Early
 discovery

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Objectives

At the end of the session, you will be better equipped to:

- Understand why fraud occurs
- Understand 'opportunity points' for errors
- Identify 'opportunity points' in a transaction cycle
- Identify 'red flags' for questionable behavior



Impact of Fraud on
 Organizations

The typical organization loses 5% of its annual revenue to fraud translating into a potential total fraud loss of more than \$3.5 trillion.

Private Co: 39.3% \$200k
 Public Co: 28.0% \$127k
Govt: 16.8% \$81k
 NFP: 10.4% \$100k
 Other: 5.5% \$75k

Median months to detection was 18 months

MOSS ADAMS LLP Fraud by Industry		
• Banking	16.6%	\$175,000
• Manufacturing	10.7%	\$300,000
• Government	9.8%	\$81,000
• Retail	6.6%	\$85,000
• Healthcare	5.9%	\$150,000
• Insurance	5.1%	\$197,000
• Education	5.0%	\$71,000
• Services	4.9%	\$109,000
• Construction	4.3%	\$200,000
• Technology	3.6%	\$250,000
• Transportation	3.4%	\$300,000

MOSS ADAMS LLP Schemes In Government		
• Corruption	35.5%	
• Billing	23.4%	
• Non-cash	19.1%	
• Skimming	17.7%	
• Expense Reimbursement	13.5%	
• Payroll	12.9%	
• Check Tampering	10.6%	
• Cash on Hand	8.5%	
• Cash larceny	7.1%	
• Financial Statement	6.4%	
• Register	6.4%	

MOSS ADAMS LLP Internal Control Weaknesses		
Overall lack of internal controls	37.8%	
Override of internal controls	19.2%	
Lack of management review	17.9%	
Poor tone at the top	8.4%	
Lack of competent personnel	6.9%	
Lack of independent checks/audit	5.6%	
Lack of fraud education	1.9%	
Lack of clear lines of authority	1.8%	
Lack of reporting mechanism	.6%	

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The Fraud Environment

INCENTIVE
 How will I pay my bills?
 Kids need....
 I want
 Casino night
 Drugs ...

OPPORTUNITY
 I'll take the cash from the deposit, write-off the A/R as bad debt....I can work around the controls

RATIONALIZATION
 I deserve a raise...
 I work long hours...
 I should have been promoted...
 I'll pay it back...




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Types of Controls

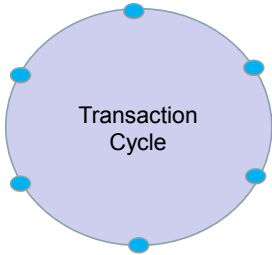
- Preventive
- Detective
- Corrective

Manual and automated



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Opportunity Points



Opportunity Point Defined

An "Opportunity Point" is any event/task within a transaction process where an error (unintentional or intentional) can occur.

If undetected and corrected results in the error(s) being passed through the system(s) resulting in:

- Financial loss to the organization
- Material misstatement(s) in the financial statements

Organizational Preventive Controls

Before a transactions is entered

- Good hiring practices
- Policies and procedures
- Job descriptions
- Spending limits / spending authority
- Pre-approvals/required approvals
- Budgets
- Passwords

Opportunity Points

Data entry

- Preventative
 - Forms
 - Dual entry
- Detective
 - Independent verification
 - Control totals

Calculations

- Preventative
 - Manual – form
 - Automated – coded into system
 - Table look-up
- Detective
 - Independent verification
 - Control totals

Detective Controls

After a transaction is entered/occurs

- Reconciliations
- Variance report
- Budget to actual
- Surprise cash/inventory count
- Event notifications

Corrective Controls

Consequences put in place

- Correction of an error
- Change to P&P / Process redesign
- Training
- **Modification to spending authority**
- **Loss of privileges**
- **Termination**
- **Litigation**



Opportunity Point Case Review Accounts Payable – OP#1

Preventive Controls

- Predetermined forms
- Information gathered
- Approval

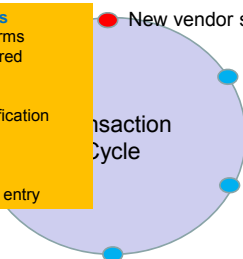
Detective Controls


- Independent verification

SOD

- Requester
- Approver
- New vendor data entry

• New vendor setup





Opportunity Point Case Review

Accounts Payable – OP#2

Preventive Controls

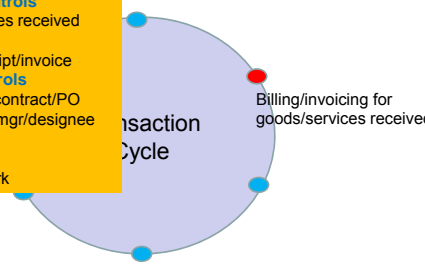
- Goods/services received before pymt
- Itemized receipt/invoice

Detective Controls

- Matching to contract/PO
- Approval by mgr/designee


SOD

- Approver
- D2D A/P Clerk



Transaction Cycle

Billing/invoicing for goods/services received



Opportunity Point Case Review

Accounts Payable – OP#3

Preventive Controls

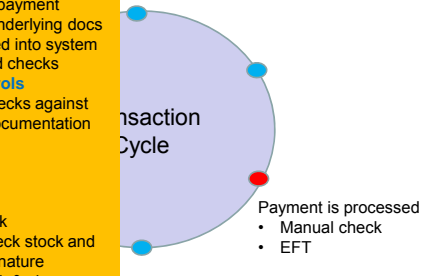
- Approved for payment
- Matching of underlying docs
- Invoice entered into system
- Pre-numbered checks

Detective Controls

- Signing of checks against supporting documentation
- Control totals
- Positive pay

SOD


- Approver
- D2D A/P Clerk
- Access to check stock and electronic signature
- D2D A/P Clerk & signer



Transaction Cycle

Payment is processed

- Manual check
- EFT



Opportunity Point Case Review

Accounts Payable – OP#4

Preventive Controls

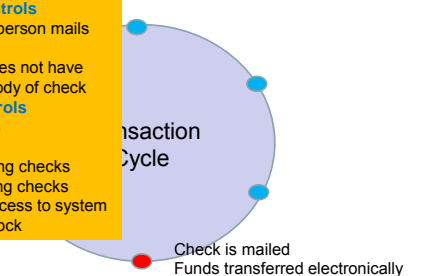
- Independent person mails checks
- Requester does not have physical custody of check

Detective Controls

- Control totals

SOD

- Person printing checks
- Person mailing checks
- Person w/ access to system and check stock



Transaction Cycle

Check is mailed
Funds transferred electronically

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Opportunity Point Case Review
Accounts Payable – OP#5

Preventive Controls

Detective Controls

- Positive Pay

SOD

Transaction Cycle

Check is negotiated

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Opportunity Point Case Review
Accounts Payable – OP#6

Preventive Controls

Detective Controls

- Reconciliation
- Budget to actual
- Variance

SOD

- Person performing reconciliation is not D2D A/P person


Transaction Cycle

Month-end Closing

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By Gender – Who Commits More Fraud?




ACFE Report Findings


Gender – Median Loss –08/10/12




Male: 61.0% - \$250k
59.1% - \$250k
66.7% - \$232k

Female: 39% - \$102k
40.9% - \$110k
33.3% - \$100k







By Age: Who Commits More Fraud?



Demographic	2006	2008	2010	2012
>60	2.8%	3.9%	2.2%	3.1%
51-60	15.3%	18.9%	14.6%	14.2%
41-50	34.6%	35.5%	33%	33.1%
31-40	32.5%	29%	35.4%	34.1%
26-30	8.8%	8.1%	9.6%	9.8%
<26	6.1%	4.6%	5.2%	5.6%





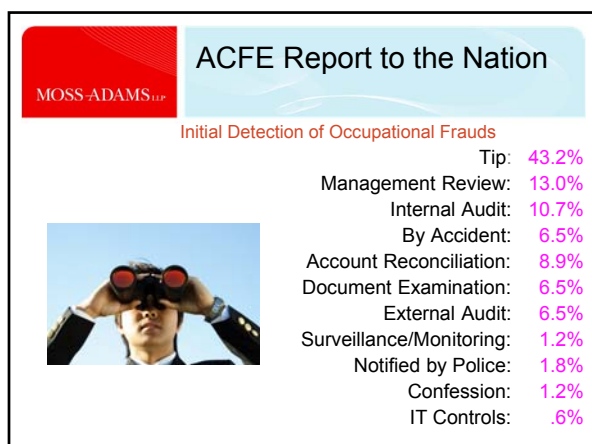
Position of Perpetrator

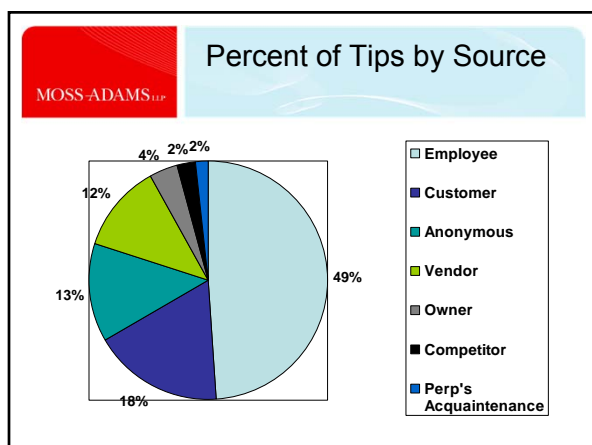
Position	Frequency	Medium Loss	Months to Detection
Employee	41.6%	\$60,000	12
Manager	37.5%	\$182,000	24
Executive	17.6%	\$573,000	24
Other	3.2%	\$100,000	10

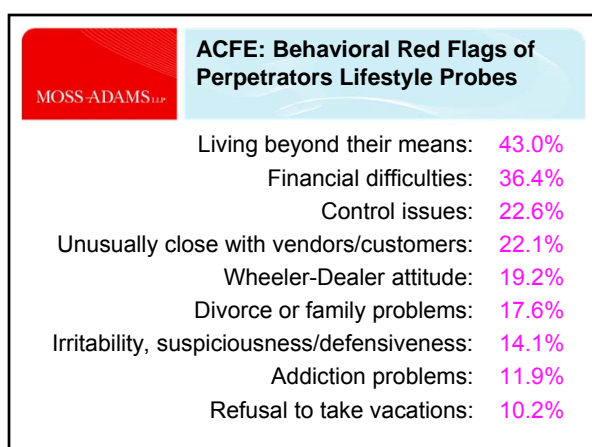
Educational Level of Perpetrator		
Educational Level	Frequency	Median Loss
Postgraduate	16.9%	\$300,000
College Degree	36.9%	\$200,000
Some college	20.5%	\$125,000
High school graduate	25.3%	\$75,000

Department	
Department	% of Cases
Accounting	22.0%
Operations	17.4%
Sales	12.8%
Executive/Upper management	11.9%
Customer Service	6.9%
Purchasing	5.7%
Inventory/Warehousing	4.2%
Finance	3.7%
Information Technology	2.0%
Board of Directors	1.4%
Legal	.6%

Response to Fraud	
Increased segregation of duties	61.2%
Management review	50.6%
Surprise audits	22.5%
Fraud training - employees	16.4%
Fraud training - managers	14.8%
Job rotation/vacation	13.5%
Internal audit	12.3%
Anti-fraud policy	11.7%
Code of conduct	8.7%
External audit	8.7%
Hotline	7.9%







If you Detect Fraud

Have a PLAN

- Who to call
 - Law enforcement
 - Human resources
 - Forensic accountant
 - Safeguard existing assets
- Quietly and confidentially gather evidence
 - Be careful not to 'tamper'
 - Leave the employee's computer alone
 - Expectation of privacy
- Communications
 - Need to know basis
 - External communications



Questions

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