



Small Thefts, Big Headaches: What to Look For and How to Move Forward

Presenters

Bryan Callahan

CPA/CFF, CFE, CVA

Forensics & Valuation Services | BKD, LLP

Susan Jones

CPA, MBA

Miller Cooper & Co., Ltd.

Stephanie Masson

CPFO, Finance Director

City of Rock Island

What We Will Cover

- ▶ The Statistics- The Reality and the Takeaways
- ▶ Fraud Schemes and Prevention
- ▶ In the Trenches; Fraud Through the Lens of a Finance Director



Fraud Statistics-What the Numbers Tell Us



REPORT TO THE NATIONS ON OCCUPATIONAL FRAUD AND ABUSE

2016 GLOBAL FRAUD STUDY



©2016 Association of Certified Fraud Examiners, Inc.

Report to the Nations

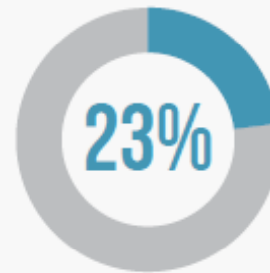


THIS REPORT CONTAINS AN ANALYSIS OF 2,410 CASES
OF OCCUPATIONAL FRAUD THAT WERE INVESTIGATED
BETWEEN JANUARY 2014 AND OCTOBER 2015. THE
FRAUDS IN THIS STUDY TOOK PLACE IN **114 DIFFERENT**
COUNTRIES THROUGHOUT THE WORLD.

©2016 Association of Certified Fraud Examiners, Inc.

The Losses

\$6.3
BILLION
IN TOTAL LOSSES



OF CASES CAUSED LOSSES OF
\$1 MILLION OR MORE



\$150,000
MEDIAN LOSS PER CASE

Industry of Victim Organizations

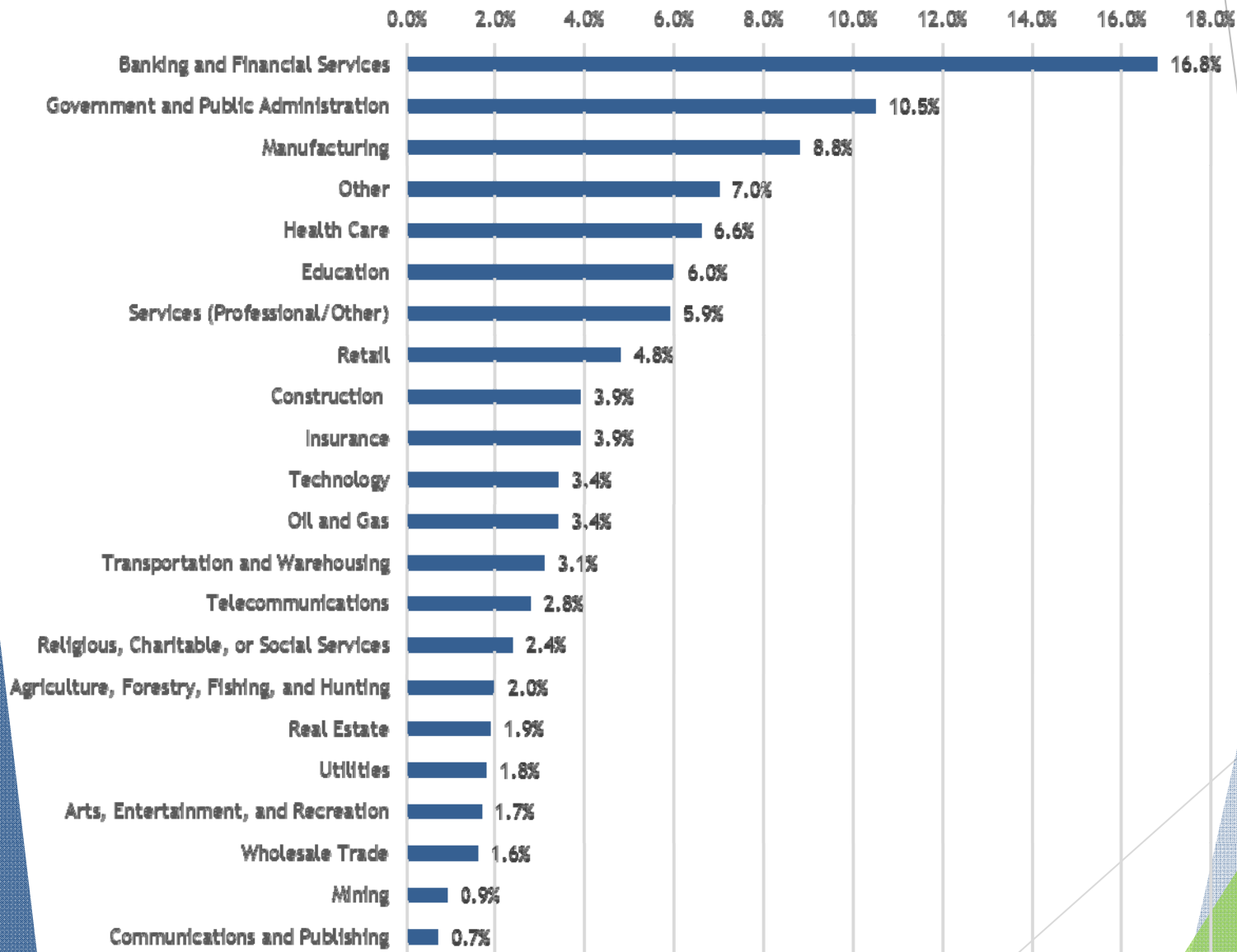


Figure 45: Frequency of Schemes Based on Industry

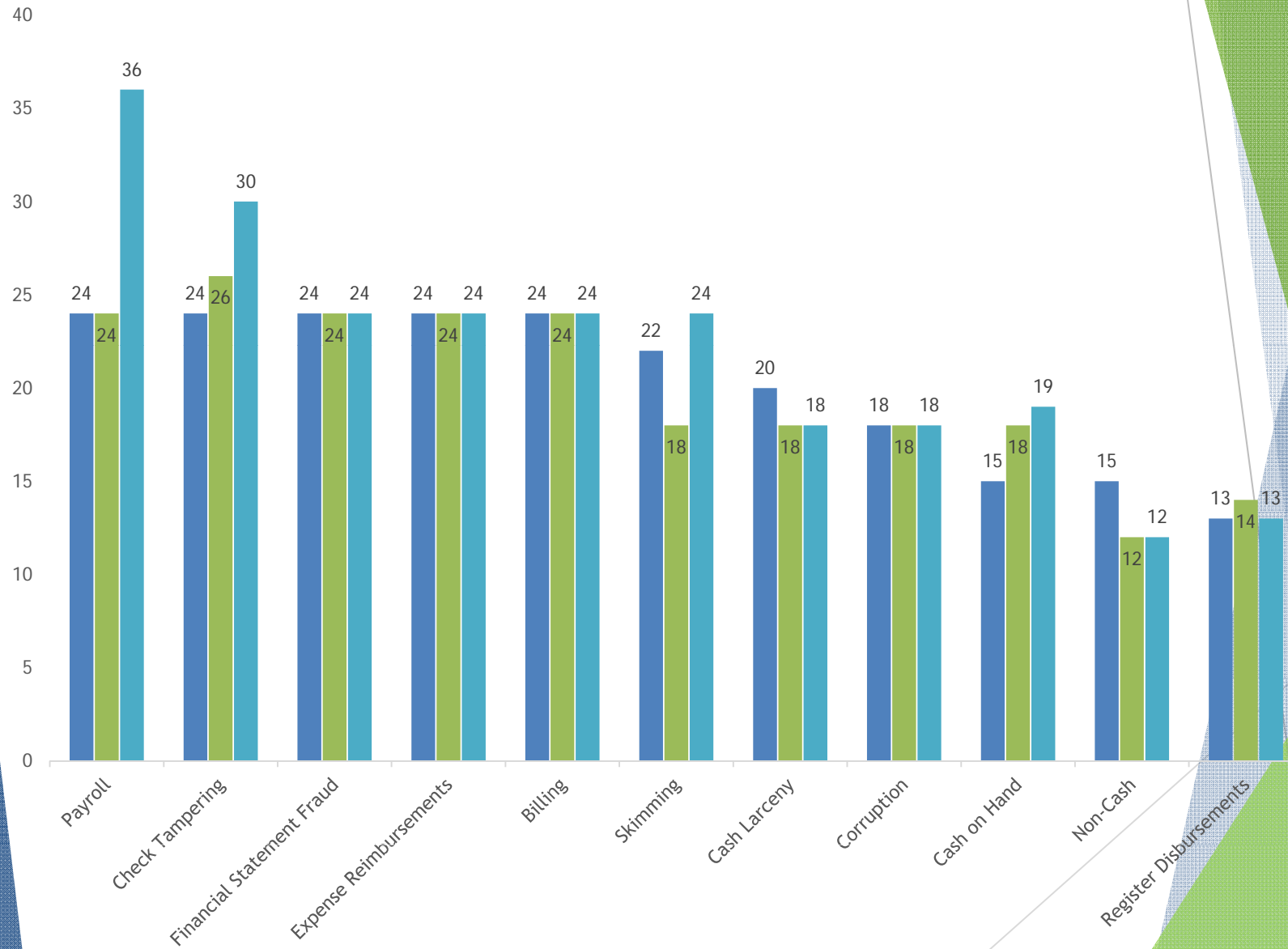
Industry/Scheme	Banking and Financial Services	Government and Public Administration	Manufacturing	Health Care	Education	Retail	Construction	Insurance	Oil and Gas	Technology	Services (Other)	Transportation and Warehousing	Telecommunications	Services (Professional)	Religious, Charitable, or Social Services
Cases	368	229	192	144	132	104	86	85	74	74	70	68	62	60	52
Billing	9.5%	25.3%	32.8%	31.3%	34.1%	15.4%	27.9%	17.6%	20.3%	29.7%	22.9%	22.1%	12.9%	28.7%	25.0%
Cash Larceny	11.1%	7.9%	5.2%	9.7%	13.6%	12.5%	8.1%	4.7%	4.1%	5.4%	15.7%	4.4%	1.6%	13.3%	9.6%
Cash on Hand	17.9%	10.5%	8.3%	11.1%	17.4%	11.5%	7.0%	4.7%	9.5%	8.1%	22.9%	5.9%	4.8%	20.0%	13.5%
Check Tampering	9.5%	9.2%	13.5%	14.6%	7.6%	9.6%	10.5%	17.6%	4.1%	5.4%	18.6%	10.3%	6.5%	31.7%	25.0%
Corruption	37.5%	38.4%	48.4%	30.6%	31.8%	32.7%	36.0%	28.2%	48.8%	44.8%	28.6%	31.3%	41.9%	16.7%	28.8%
Expense Reimbursements	5.4%	15.7%	22.9%	20.1%	15.9%	8.7%	20.9%	9.4%	10.8%	27.0%	12.9%	8.8%	19.4%	16.7%	25.0%
Financial Statement Fraud	12.0%	7.9%	10.9%	13.2%	5.3%	5.8%	17.4%	7.1%	6.8%	12.2%	17.1%	5.9%	9.7%	11.7%	3.8%
Non-Cash	10.6%	14.8%	30.2%	13.2%	17.4%	32.7%	22.1%	5.9%	17.6%	18.9%	22.9%	29.4%	38.7%	10.0%	13.5%
Payroll	3.8%	13.5%	11.5%	9.7%	7.6%	3.8%	16.3%	5.9%	8.1%	2.7%	11.4%	7.4%	3.2%	11.7%	13.5%
Register Disbursements	2.7%	1.7%	5.7%	2.1%	1.5%	8.7%	1.2%	0.0%	0.0%	1.4%	5.7%	2.9%	3.2%	1.7%	1.9%
Skimming	6.8%	14.0%	8.3%	12.5%	25.0%	17.3%	15.1%	10.6%	8.1%	5.4%	21.4%	11.8%	6.5%	18.3%	19.2%



 Less Risk More Risk

How Occupational Fraud is Committed

Median Duration of Fraud Based on Scheme Type (in months)



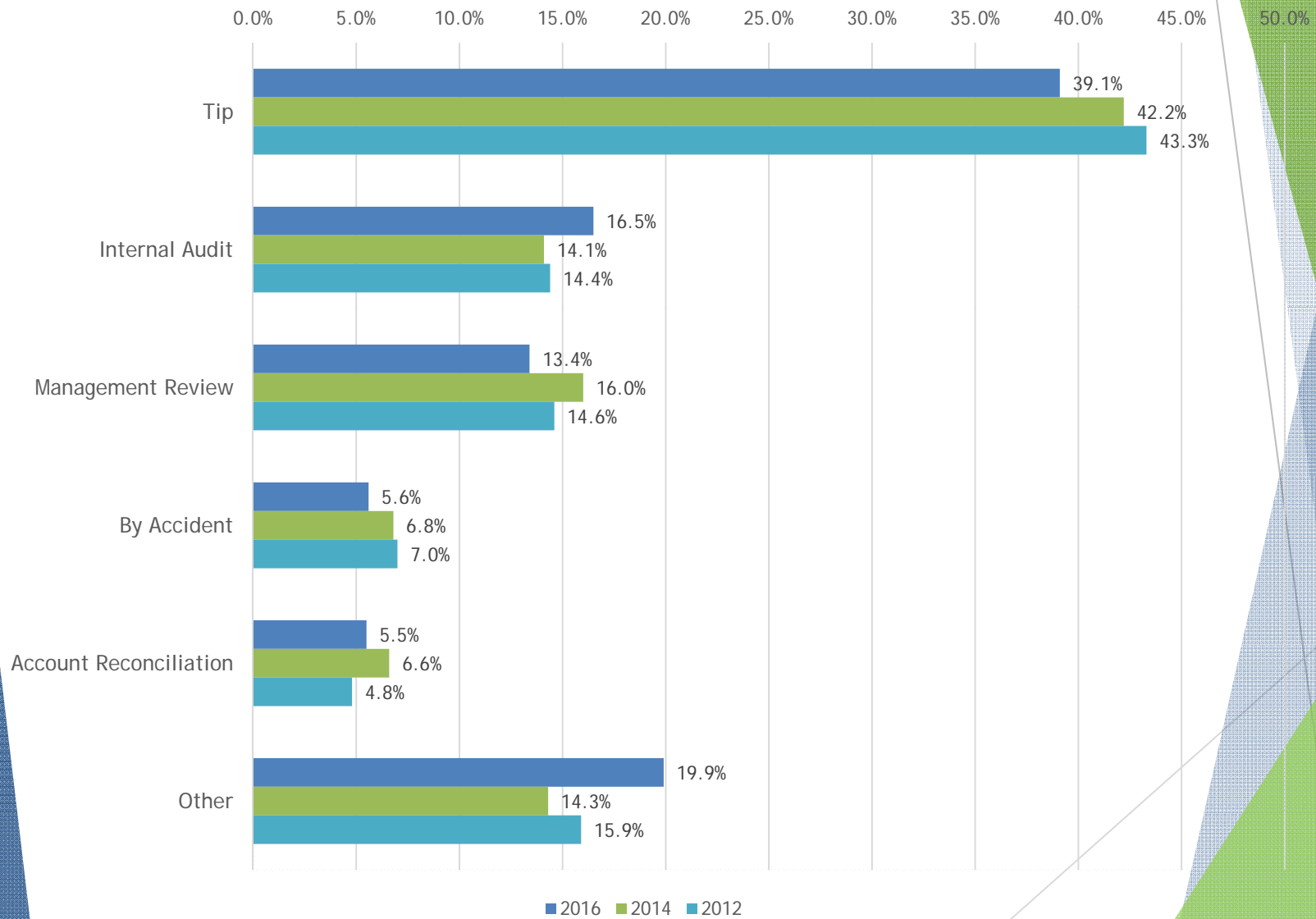
Victim Organizations - Government

Government and Public Administration 229 Cases

Scheme	Number of Cases	Percent of Cases
Billing	58	25.3%
Cash Larceny	18	7.9%
Cash on Hand	24	10.5%
Check Tampering	21	9.2%
Corruption	88	38.4%
Expense Reimbursements	36	15.7%
Financial Statement Fraud	18	7.9%
Non-Cash	34	14.8%
Payroll	31	13.5%
Register Disbursements	4	1.7%
Skimming	32	14.0%

Detection of Fraud Schemes

Initial Detection of Occupational Frauds



Detection of Fraud Schemes

Source of Tips

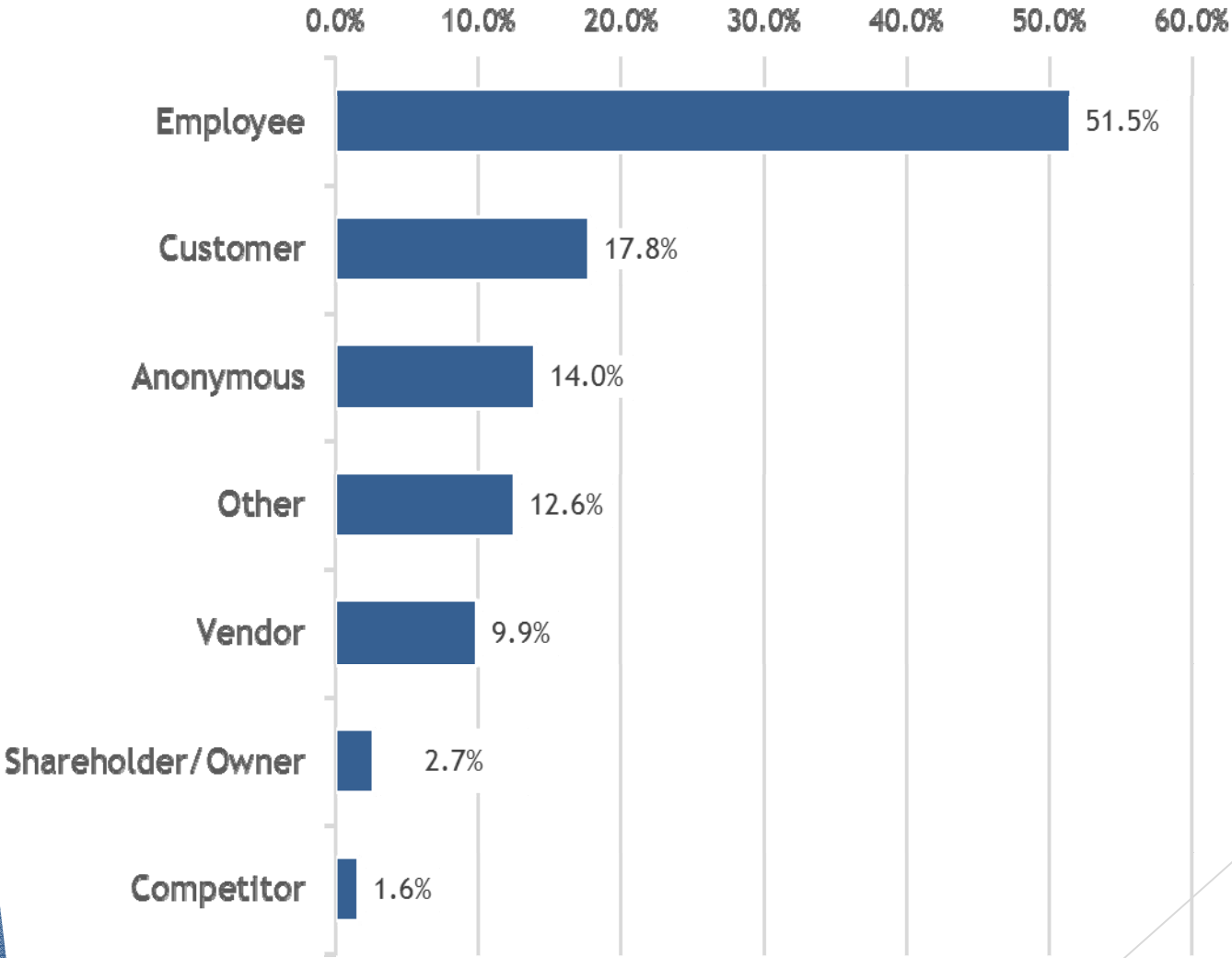


Figure 65: Position of Perpetrator—Frequency and Median Loss

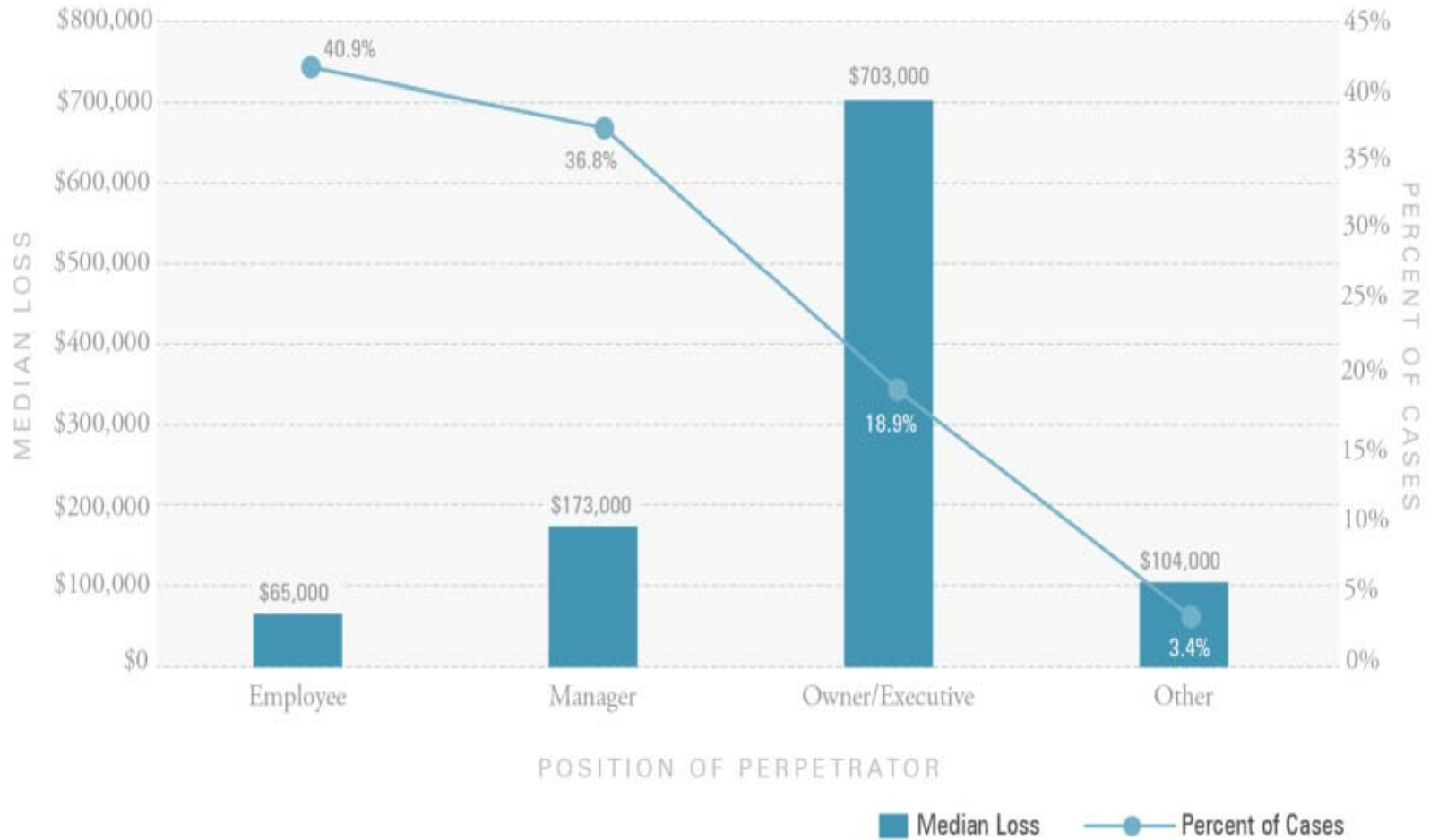
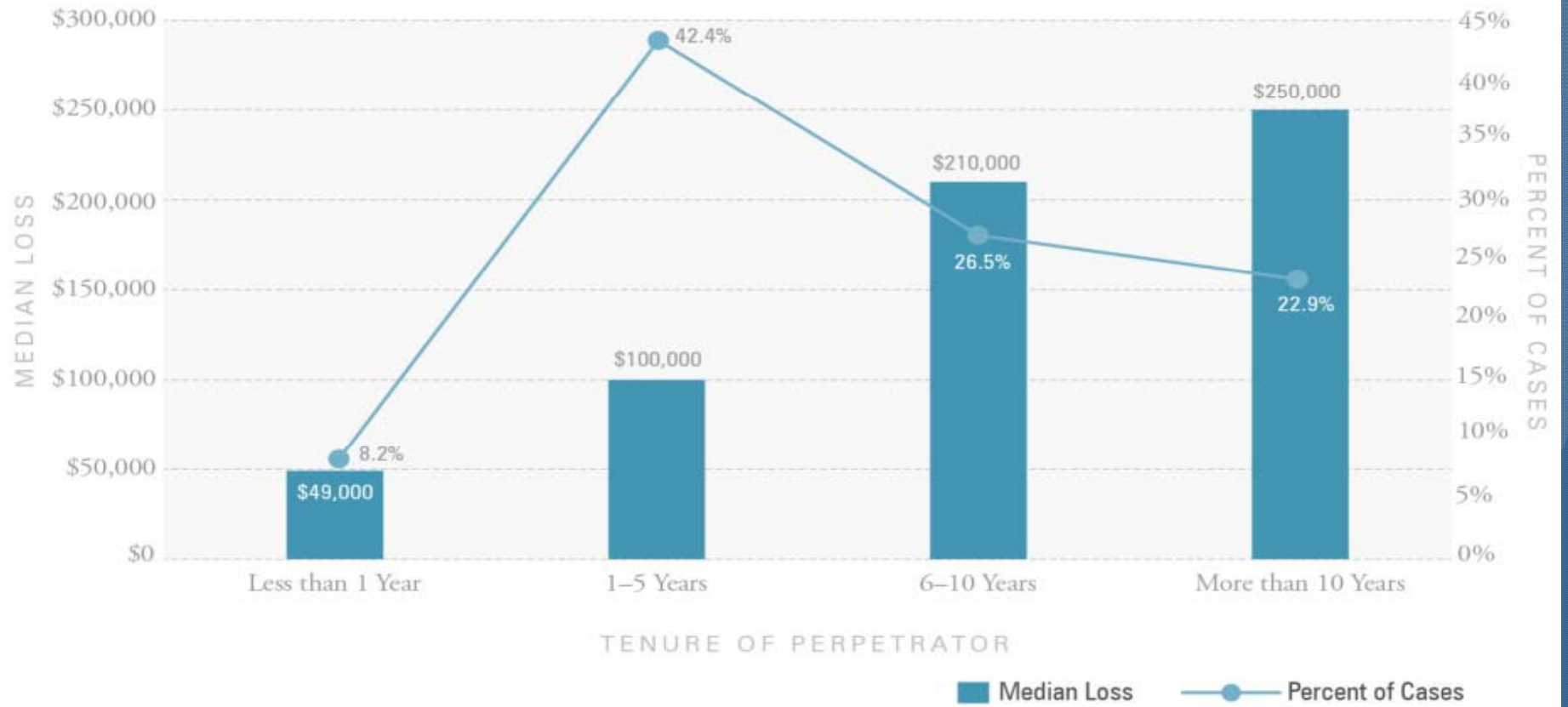


Figure 76: Tenure of Perpetrator—Frequency and Median Loss



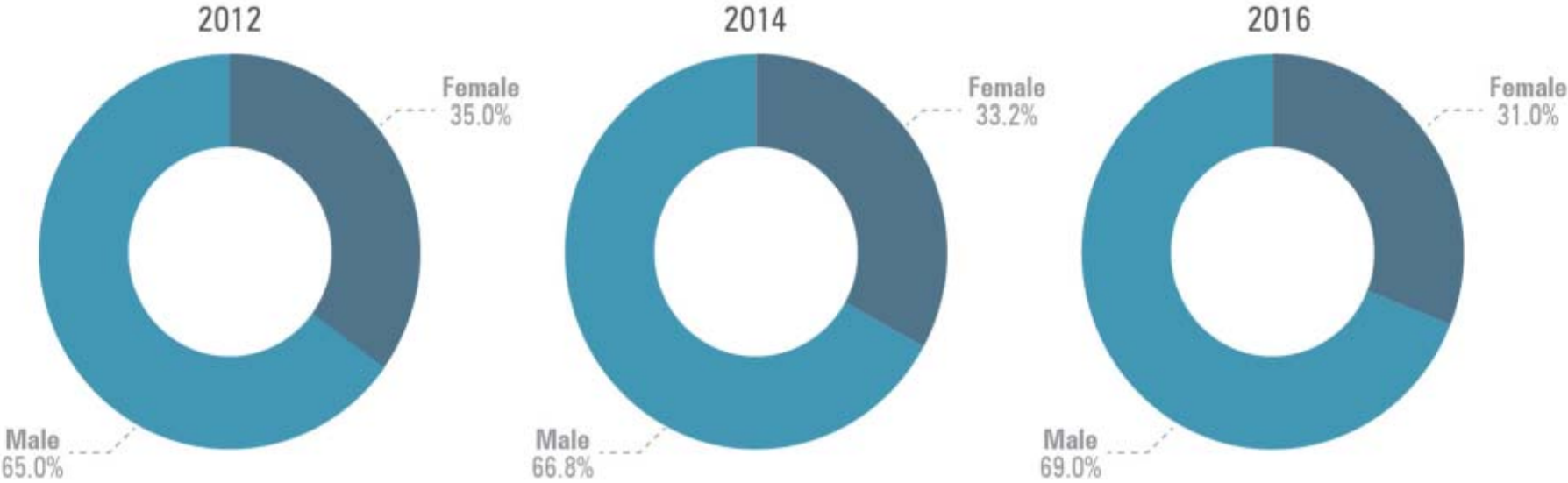
Frequency of Schemes Based on Perpetrator's Department

Department/ Scheme	Accounting	Operations	Sales	Executive/Upper Management	Customer Service	Purchasing	Finance	Warehousing/ Inventory
Cases	348	312	260	228	189	161	94	86
Billing	27.0%	21.5%	14.2%	36.8%	9.5%	25.5%	24.5%	9.3%
Cash Larceny	14.9%	7.7%	8.1%	10.1%	14.3%	3.7%	18.1%	0.0%
Cash on Hand	15.5%	13.8%	6.5%	12.3%	18.5%	13.0%	22.3%	5.8%
Check Tampering	30.5%	9.3%	2.7%	13.6%	7.4%	6.2%	24.5%	1.2%
Corruption	21.6%	34.9%	34.6%	50.9%	25.4%	68.9%	37.2%	32.6%
Expense Reimbursements	15.8%	12.2%	14.2%	23.7%	5.8%	14.9%	14.9%	3.5%
Financial Statement Fraud	12.9%	5.4%	7.3%	30.3%	3.7%	3.1%	23.4%	9.3%
Non-Cash	7.2%	19.6%	20.4%	24.6%	16.4%	18.6%	13.8%	57.0%
Payroll	21.6%	6.4%	1.5%	10.1%	3.7%	5.0%	7.4%	2.3%
Register Disbursements	3.2%	4.2%	5.0%	1.8%	3.2%	4.3%	3.2%	0.0%
Skimming	17.5%	12.8%	11.9%	11.8%	16.9%	7.5%	12.8%	5.8%



Gender

Figure 79: Gender of Perpetrator—Frequency



Criminal Background

Figure 92: Criminal Background of Perpetrator

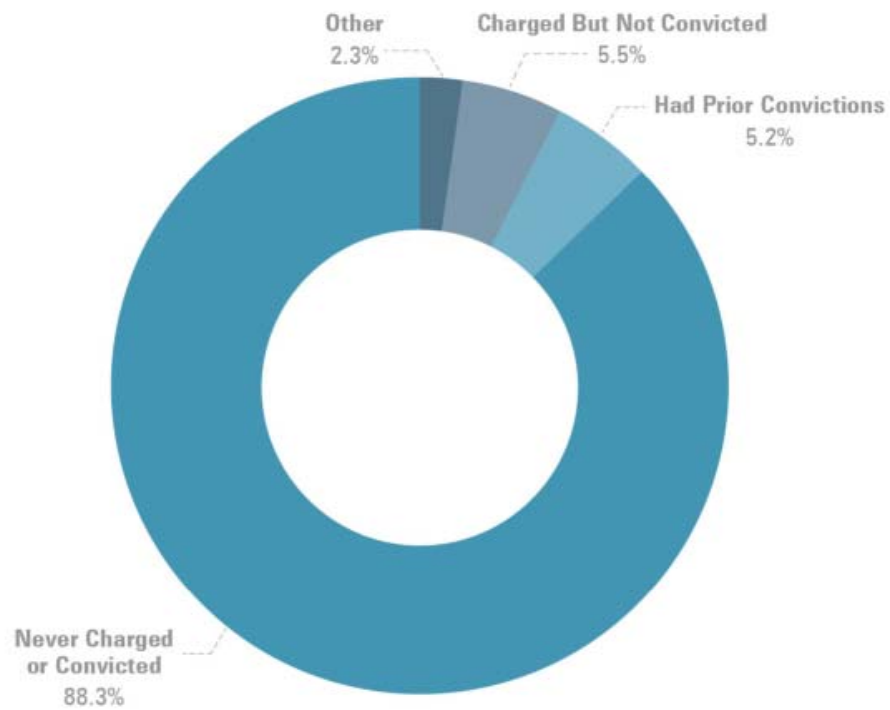


Figure 94: Behavioral Red Flags Displayed by Perpetrators

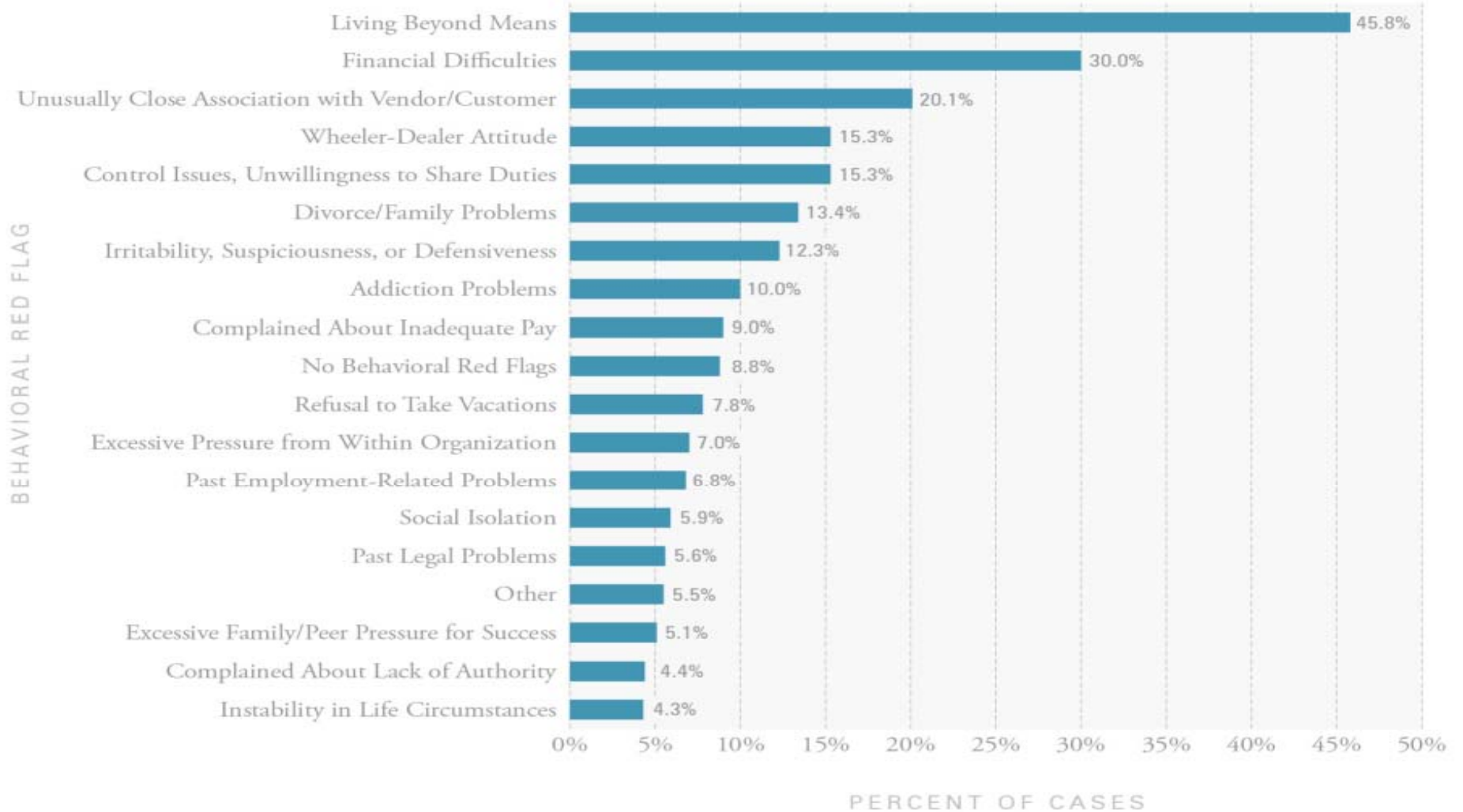
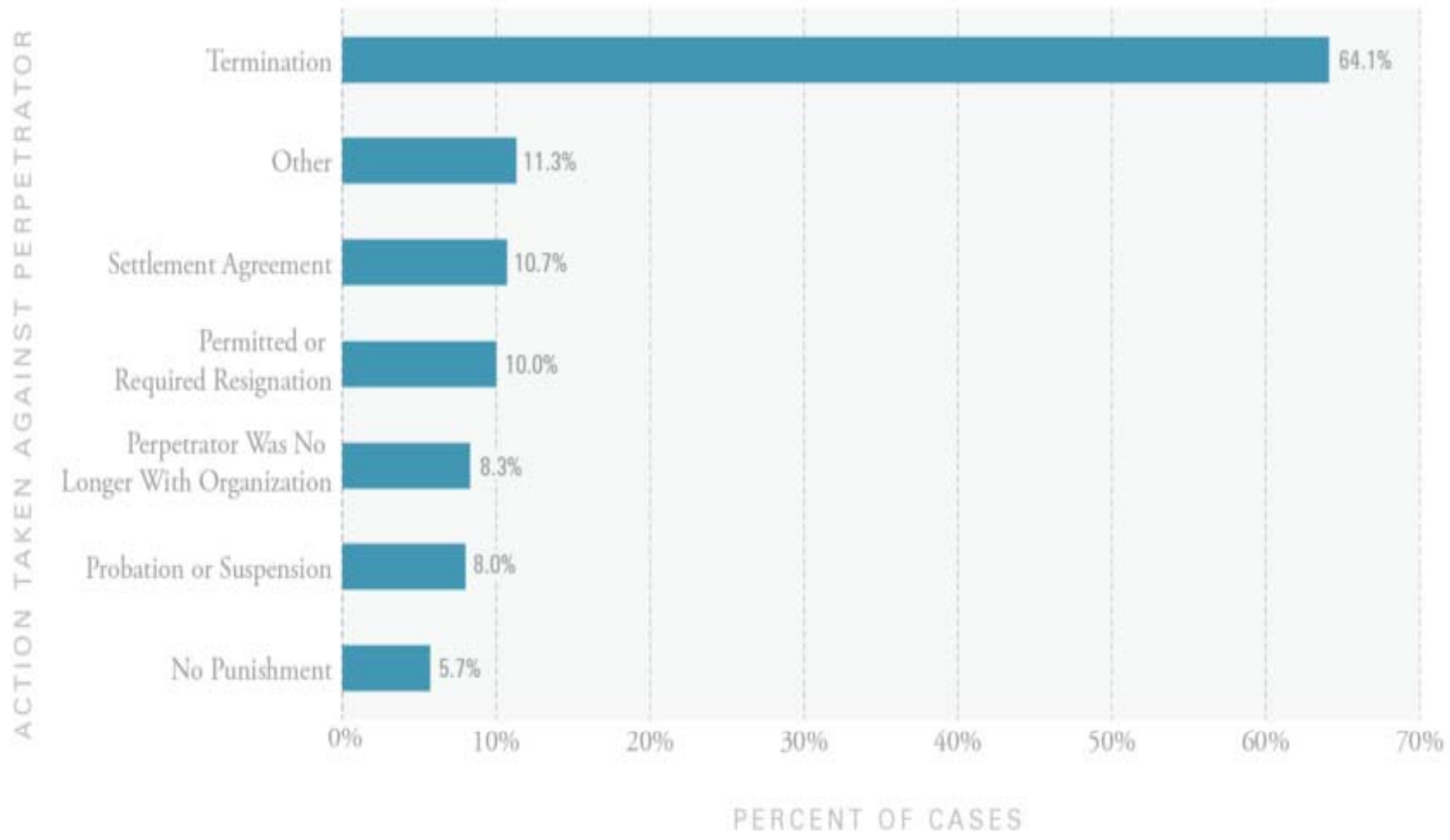
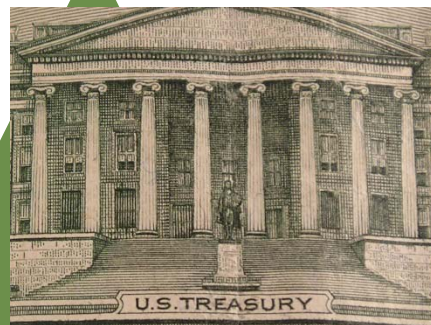


Figure 106: Action Taken Against Perpetrator



© 2016 Association of Certified Fraud Examiners, Inc. All rights reserved.

Common Fraud Schemes & Vulnerabilities



What makes Government Vulnerable to Fraud?

- ▶ Budget & resource constraints
- ▶ Computer systems-outdated, multiple across departments
- ▶ Trust/over reliance on long-term employees
- ▶ Amount of part time employees
- ▶ Large number of bank accounts
- ▶ Sensitive information on desks

Areas Susceptible to Fraud?

- ▶ Inventory & supplies (public works, IT, etc.)
- ▶ Payroll; vacation pay, compensated absences & other allowances
- ▶ Local adjudication; police department, municipal courts, etc.
- ▶ Refunds; park districts
- ▶ Writeoffs; utilities

Areas Susceptible to Fraud? (continued)

- ▶ Purchasing schemes
 - ▶ Vendor corruption
 - ▶ Misuse of P-Cards & Credit Cards
- ▶ Skimming of cash
- ▶ Theft of fuel & other commodity type assets

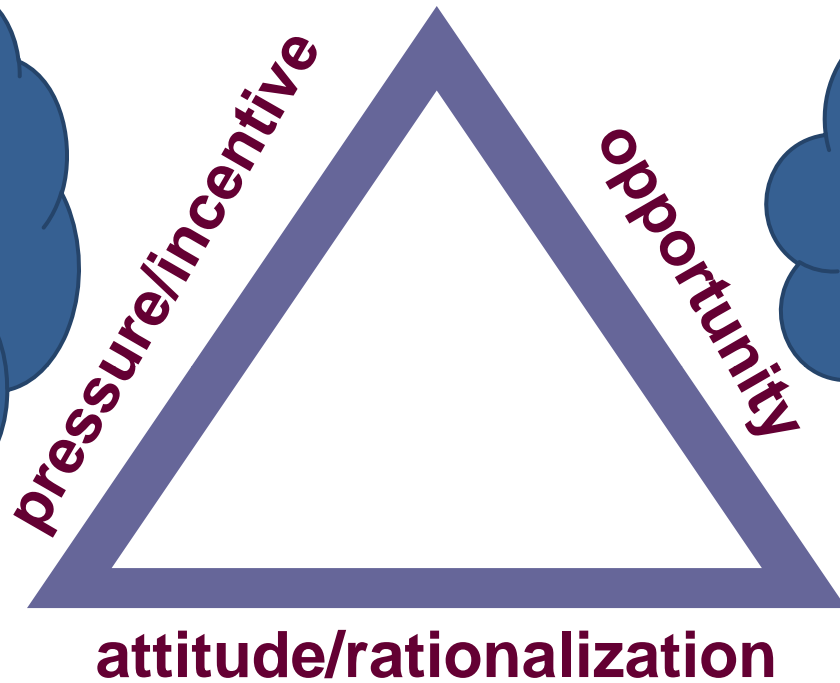


Preventing Fraud



The Fraud Triangle

How will I pay my bills?
Kids need....
I want
Gambling..
Drugs ...



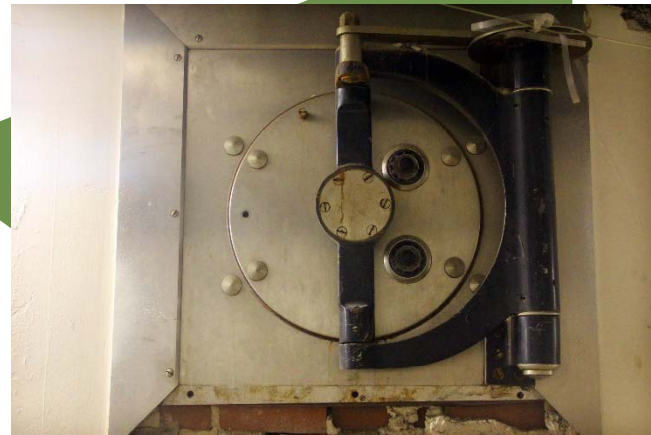
I'll take the cash from the deposit, write-off the A/R as bad debt...I can work around the controls

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

Occupational Fraud and Abuse, by Joseph T. Wells, CPA, CFR
(Obsidian Publishing Co, 1997);
Fraud Examination, by W. Steve Albrecht (Thomson South-Western Publishing, 2003)

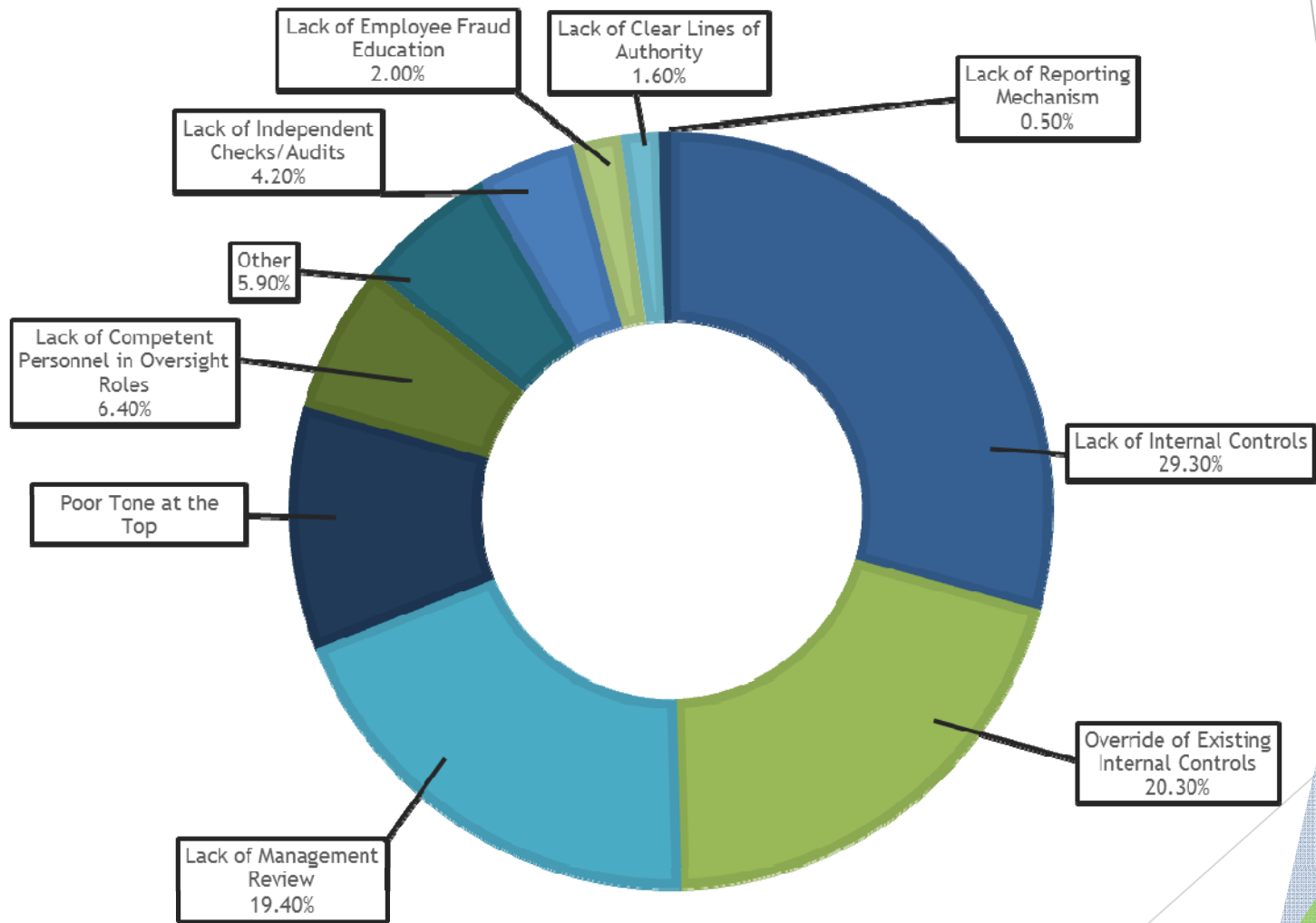
Types of Controls

- ▶ Preventive
- ▶ Detective
- ▶ Corrective



Manual and automated

Primary Internal Control Weaknesses

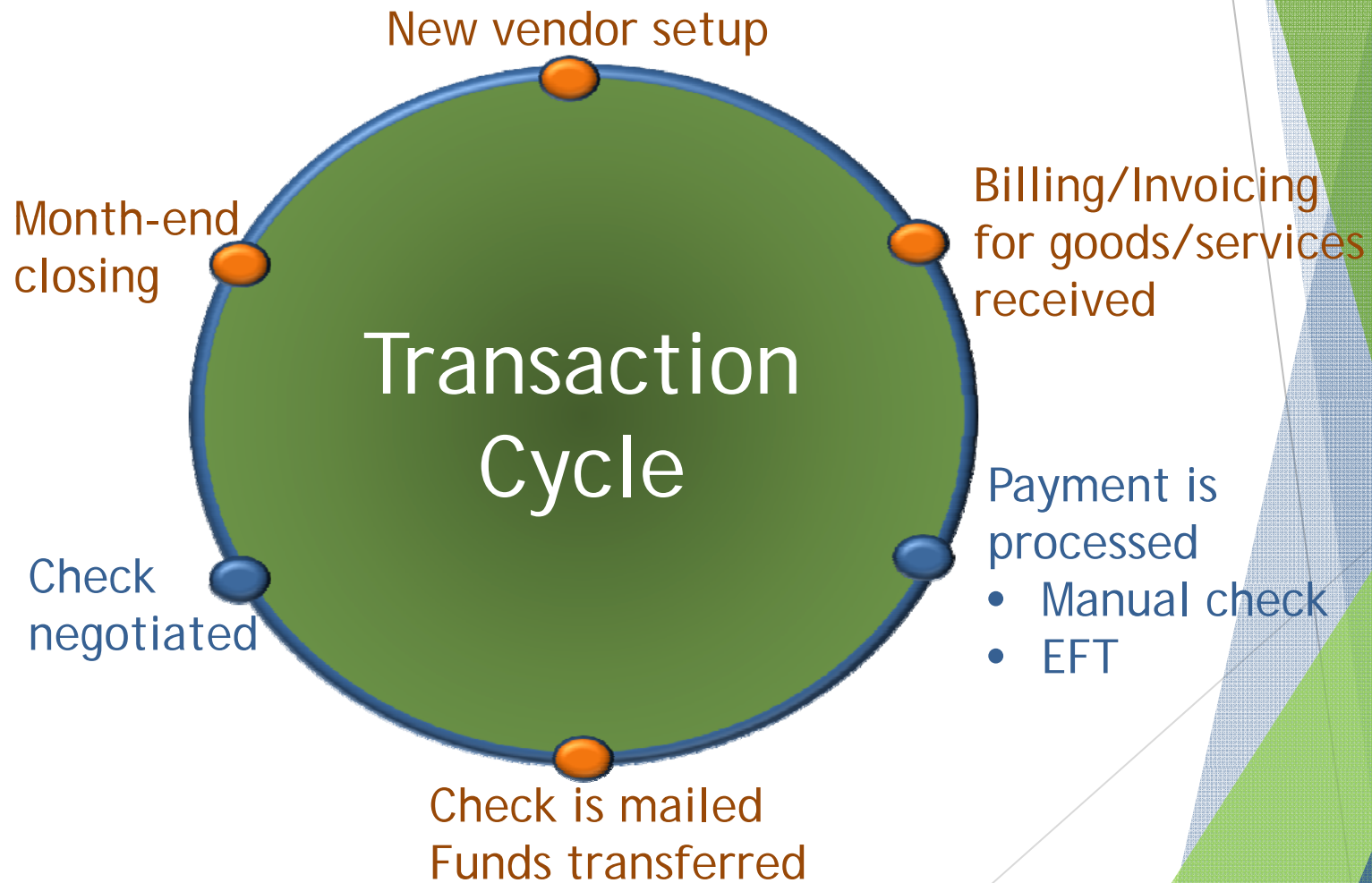


Opportunity Point

- ▶ 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

Example Opportunity Points

● New hire process



What are Some Key Controls for Auditees?



- ▶ Segregation of duties
- ▶ Timely cash deposits and reconciliations
- ▶ Timely reconciliation of bank statements
- ▶ Requiring double signatures or approvals
- ▶ Limiting access to credit cards and regular monitoring of usage
- ▶ Have written policies on credit card usage
- ▶ Review credit card statements
- ▶ Documentation, documentation, documentation
- ▶ Never pre-sign checks.

Important Internal Control Thoughts

- ▶ Internal controls are needed for all agencies regardless of size.
- ▶ Limited controls are better than none.
- ▶ “Trusting” employees is admirable but can be an invitation to fraud.
- ▶ A financial audit should not be relied upon to prevent or detect fraud.
- ▶ Controls are only as good as people implementing them.
- ▶ Controls should be designed to reduce the opportunity for fraud.

Through the Lens of a Finance Director: The Identification and Aftermath of Discovering Fraud



Case Example-Village of Park Forest

- ▶ The scenario and discovery
- ▶ Action taken
- ▶ Impact to work environment



The Aftermath: What Next.....



Damages to Victims Go Beyond \$\$\$

- ▶ Reputation
- ▶ Loss of Public Confidence
- ▶ Impact on Volunteers/Donors
- ▶ Staff Morale
- ▶ Relationships



Communicating & Restoring Trust

- ▶ Board of trustees
- ▶ Employees
- ▶ Press
- ▶ Community



Questions

