

Fighting Fraud



2016 Audit Services Annual Training: Fraud risk



Arnold Perez
Clark County Auditor's Office

Your quest

- if you wish to accept it
- (of course you did, you work for the county!),
- is the public administration of your departments!

Your journey is long...

- (age plus years of service),
- the challenges are many
- and you will be confronted by those who wish to take that which does not belong to them.

You will be faced with threats...

- Some come in the form of a Trojan email attachment
- others can come from within the very walls where you work!

You and you alone...

- (in conjunction with your staff)
- are responsible in creating the protections around department!

One villainous threat that prowls around
your defenses searching for a way to get in is

FRAUD!

Fraud is known as many things

- “Fraud involves obtaining something of value through willful misrepresentation.”

Source: Government Auditing Standards, Yellow Book 6.30

- “Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving gain.”

Source: “Managing the Business Risk of Fraud: A Practical Guide” IIA, AICPA & ACFE

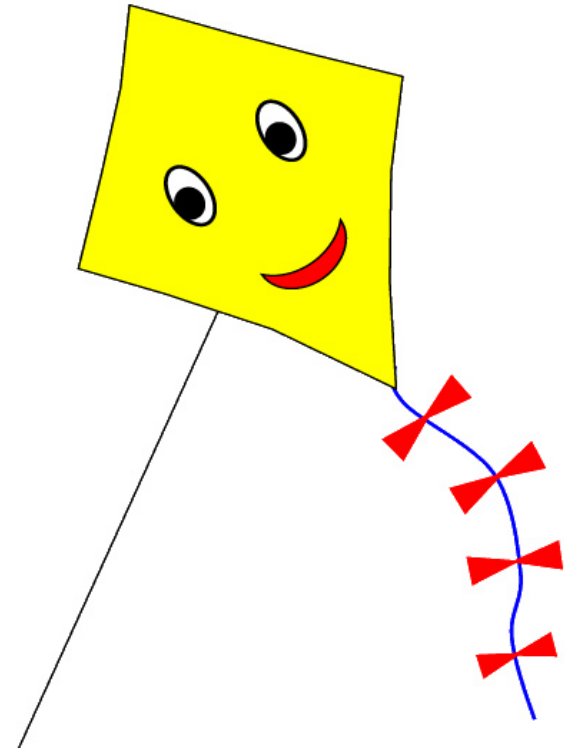
It is a tricky foe...

- that can take many shapes and forms
- Today we will be discussing some of them to better prepare you to recognize and overcome its advances.

Take for example...

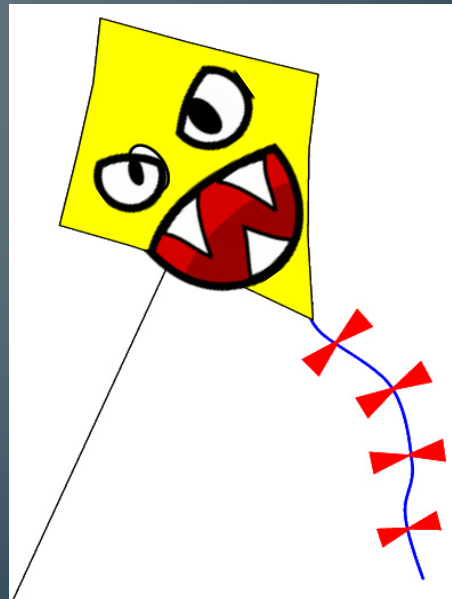
Kiting

* Fun activity on a windy day?



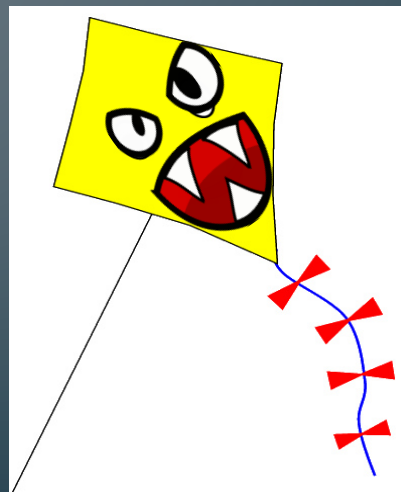
No!

Fraud!




Kiting

- It is a ruse created by an employee in attempt to hide the fact that funds are missing by claiming that the amounts are actually in transit between government and the bank.

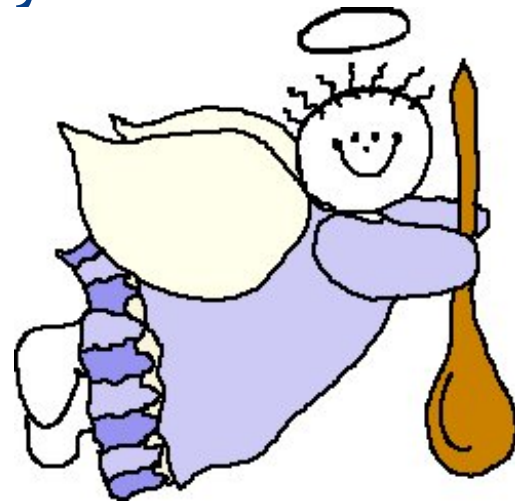


What can you do to cut the “kite's”
string?

- 
- * Regular,
 - * timely and
 - * independently performed bank reconciliations are sufficient to prevent kitting.

Phantom Employees

- * Dedicated public servants that perform work from the great beyond?



No - Fraud!




Phantom Employees

- AKA: Ghost Employees
- Fictitious employees that may be placed on the payroll,
- or supervisors may delay processing termination papers on employees and then keep the checks for one or two pay periods after the employees have been terminated.



How can we banish these ghosts?

- 
- * Periodic verifications by performing surprise inspections of payroll disbursements records to payroll timesheets/time clocks.

Lapping

- * Passing someone on a shared swim lane?



No-

Fraud!




Lapping



- A dishonest employee with access to both the accounts receivable records and cash collections will “borrow” funds by failing to credit a payment made to an account.
- This account is then later “reimbursed” when a subsequent payment destined for a second account is, in fact, diverted to “pay off” the first account.
- This process can then be continued indefinitely

How can you break this aqua cycle?

- 
- * Segregation of incompatible duties:
 - * cash collection responsibilities are kept separate from accounts receivable record keeping duties.

Double Payments

- * A sure fire way to pay off your mortgage or student loans early?




Double Payments

- Dishonest individuals sometimes try to defraud a government by billing it twice for the same goods or services.
- One method is to seek payment from both the petty cash and regular reimbursement process for the same item.



**How can you keep them from
doubling their pleasure and
doubling their fun?**

- 
- * Duplicate payments for the same goods or services are unlikely to occur if payment is only based on original documentation that is subsequently stamped or perforated to prevent reuse.

Pilferage

*A breakthrough medical treatment against ageing?



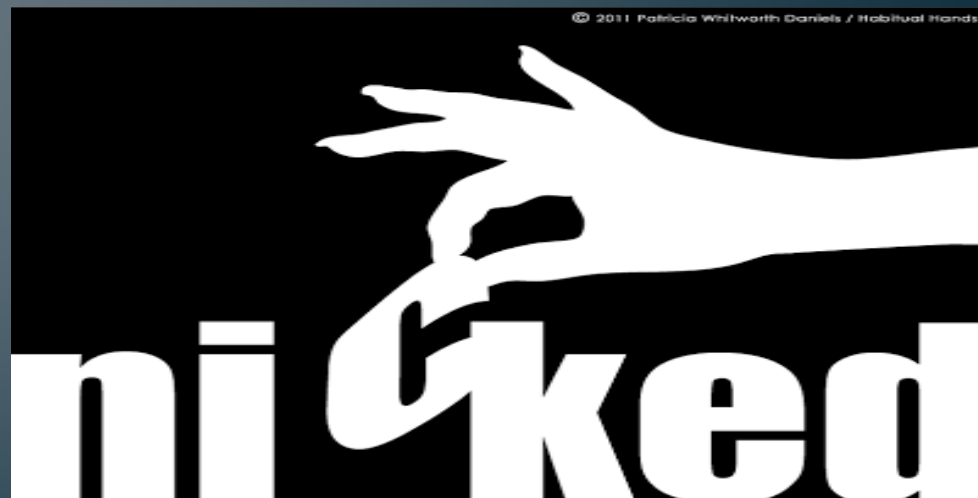
No!

Fraud!




Pilferage

- Petty theft of supplies and similar items of small monetary value, what may begin as the occasional chance removal of a few pens or a pad can easily escalate, if left unchecked, into a large scale diversion of supplies.

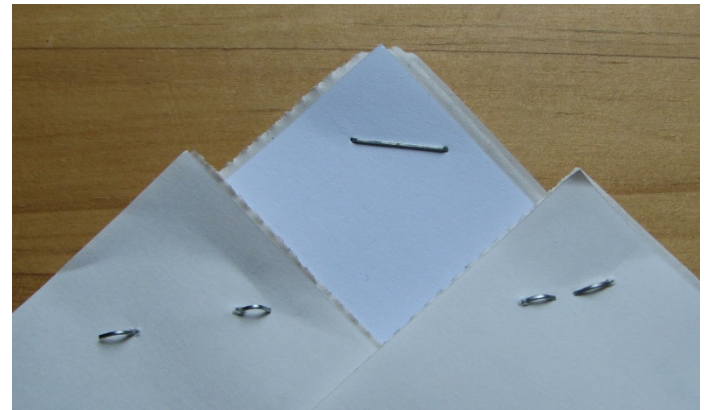


How can you help them swallow the bitter pill of accountability?

- 
- * Analytical reviews of supplies
 - * trend analysis and
 - * performing an independent analysis of supply needs can
 - * disclose unacceptable high levels of pilferage.

Stapling

- * A manner of attaching two or more paper documents utilizing a pliable metal?



Yes

- * Yes, that's exactly what it is.

The Fallen

- Sadly some that have taken up the quest of Public Administration have succumbed to the darkness of fraud.
- Sit back and hear the tales of woe of some of the fallen and the various specters of Fraud that were downfall.

County Clerk's Office Employee vs Identity Theft & Check Cashing Scam



MR. JOHN JONES
1645 DUNDAS ST. W, APT. 27
TORONTO, ON M6K 1V2

DATE 9 00 01 2 0 1
Y Y Y Y M M D D

PAY TO THE ORDER OF Wikimedia Foundation \$ 100.55
One Hundred Dollars and 55/100 DOLLARS

FIRST BANK OF WIKI
Victoria Main Branch
1425 James St., P.O. Box 4001
Victoria (B.C.)

MEMO Ⓢ

243



New Mexico: Ex-county employee sentenced in identity theft scam

- *The local ringleader and a co-conspirator of a large-scale, identify-theft and check-cashing scam involving the Doña Ana County Clerk's Office was sentenced to 18 months in prison, followed by three years of supervised release....*
- *Employee admitted that she accessed the county's voter registration database at work and recorded the names, dates of birth and social security numbers of 111 people whose identities she knew were going to be used to file fraudulent federal income tax returns in order to obtain fraudulent refund checks;*
- *she also agreed to mail fraudulent federal income tax returns and cash refund checks*

Assistant City Engineer vs Stealing Funds



VS



California: Employee Accused Of Stealing City Money

- A former assistant engineer and an eight-year employee of the city, is accused of stealing approximately \$531,037 over the last four years.
- Employee oversaw developer funds deposited as part of the permit entitlement process, according to city officials.
- The employee allegedly took advantage of these funds that were owed to developers, by submitting false invoices, using DBAs, or fake business names, and then claiming funds that were owed back to developers,
- The theft was uncovered after the Sheriff's Department received an anonymous tip.

DMV Employee vs Securities Fraud



VS



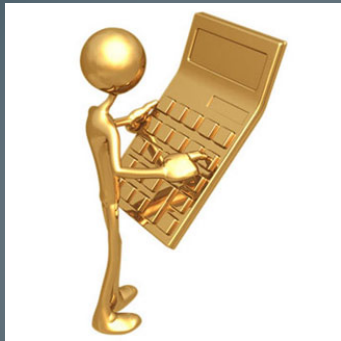
FAKE



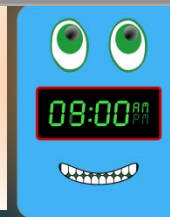
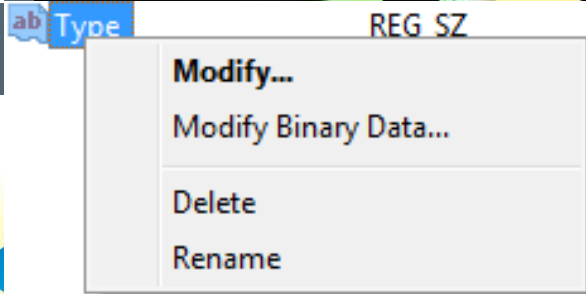
Virginia: Ex-employee pleads guilty to helping car dealership roll back odometers

- A former employee pleaded guilty to helping a used-car dealership roll back odometers in at least 76 vehicles – and costing at least 10 people more than \$150,000
- According to court documents, the employee helped the business obtain falsified vehicle titles while working at a DMV Select branch.
- The scheme stretched from about January 2010 through September 2013, court documents said.
- The odometers on some vehicles were rolled back more than 100,000 miles.
- Employee was convicted on one count of conspiracy to commit securities fraud.

Grants Accountant vs Aggregate Theft & Tampering With a Government Records



VS



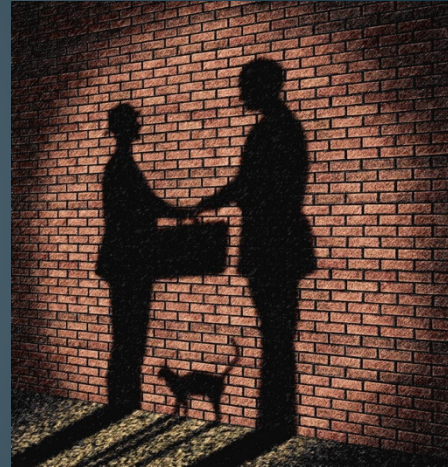
Texas: New information about former city employee's arrest

- Employee is charged with aggregate theft by public servant, a third degree felony. If convicted, she could face up to 10 years in prison and a \$10,000 fine.
- Police said she faces an additional 24 counts of tampering with a government record.
- The employee changed her vacation, comp time and sick hours to regular hours worked and entered overtime hours she didn't work.
- The court document details dates ranging from June 2015 to April 2016 for a total of 72 hours.
- The monetary grand total for the 24 separate times the Accused, altered her payroll is \$1,656.65.

Public Schools Principals: Bribery/Kickbacks



VS



Michigan: Feds: 12 principles stole \$1M in kickback scheme

- 12 current and former principals, one administrator and a vendor — all of them charged with running a nearly \$1-million bribery and kickback scheme involving school supplies that were rarely ever delivered
- Businessman is accused of paying \$908,500 in kickbacks and bribes
- Some bribes were for as little as \$4,000, another for \$324,000.
- He secretly did this for 13 years, scamming school after school to the tune of \$2.7 million with the help of principals who benefited along the way

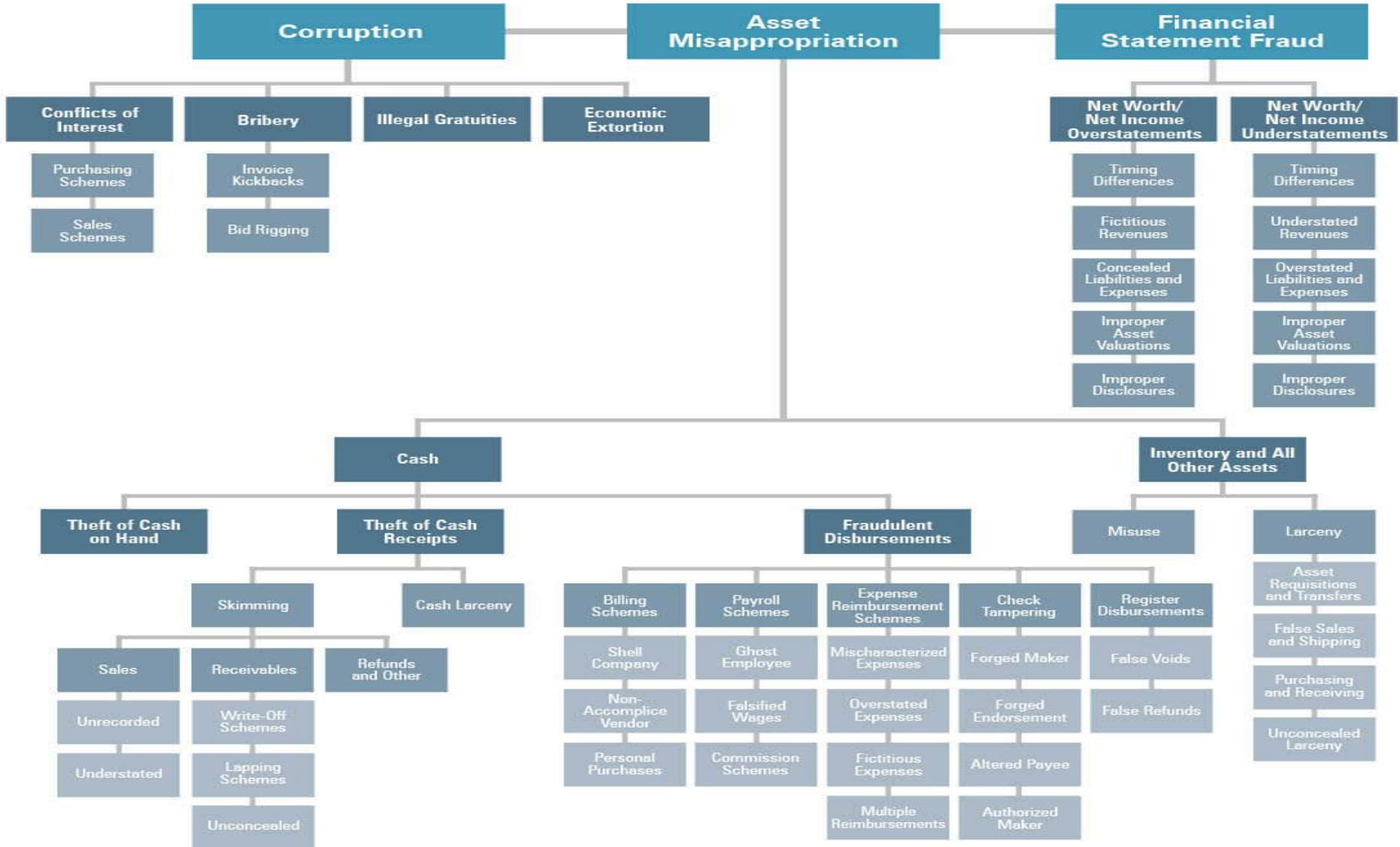
What can help you throughout your quest against Fraud?

- There is a tree,
- a tree that bears bitter fruit.
- Fruit of the Fraud tree that can teach you about the varying forms Fraud can take on.
- This tree can be found by looking in the world wide web



THE FRAUD TREE

OCCUPATIONAL FRAUD AND ABUSE CLASSIFICATION SYSTEM



The Association of Certified Fraud Examiners (ACFE)

- * ACFE provides tools to assist in Fraud detection
- * <http://www.acfe.com/free-resources.aspx>
- * Free Resources:
 - * Fraud Prevention Check-Up list
 - * Fraud Talk
 - * White Papers
 - * Report of Nations on Occupational Fraud and Abuse
 - * Fraud Videos Library
 - * Fraud Prevention Resources

Other Great Resources

- * Clark County's Audit Services Website
- * State of Washington
 - * Access Washington: Report Fraud
 - * Office of the Attorney General: Scam Alerts
- * Federal Bureau of Investigation (FBI)
 - * Scams and Safety
- * Financial Fraud Enforcement Task Force
 - * STOPFRAUD.GOV

We are together on this quest!

- * We are your Internal Audit Services (IAS)
- * We are here to help
- * You can:
- * Visit us at <https://clarknet.clark.wa.gov/audit-services/audit-services-home>
- * Email us AuditServices@clark.wa.gov
- * Call us extension 4795
- * Or come on by PSC 5th Floor Room 578



Thank You!

Arnold Perez, MPA, CFE, CGAP
Performance Auditor
Clark County Auditor's Office
Arnold.Perez@clark.wa.gov