

Fraud Awareness Training

December 17, 2020

Arnold Pérez, Performance Auditor

Audit Services



What we will cover:

- Report to the Nations 2020 (ACFE)
- Fraud in the Wake of COVID-19: Benchmarking Report 2020 (ACFE)
- 6 Steps to Stop or Mitigate Insider Fraud Risks



Association of Fraud Examiners 2020 Report to the Nations

- What types of organizations are victimized by occupational fraud?
- What are the most common occupational fraud schemes in Government and public administration?
- What are the primary internal control weaknesses that contribute to occupational fraud?
- How Occupational Fraud is Concealed
- How is it detected and who reports it?
- Behavioral Red Flags of Fraud
- Fraud Training Works

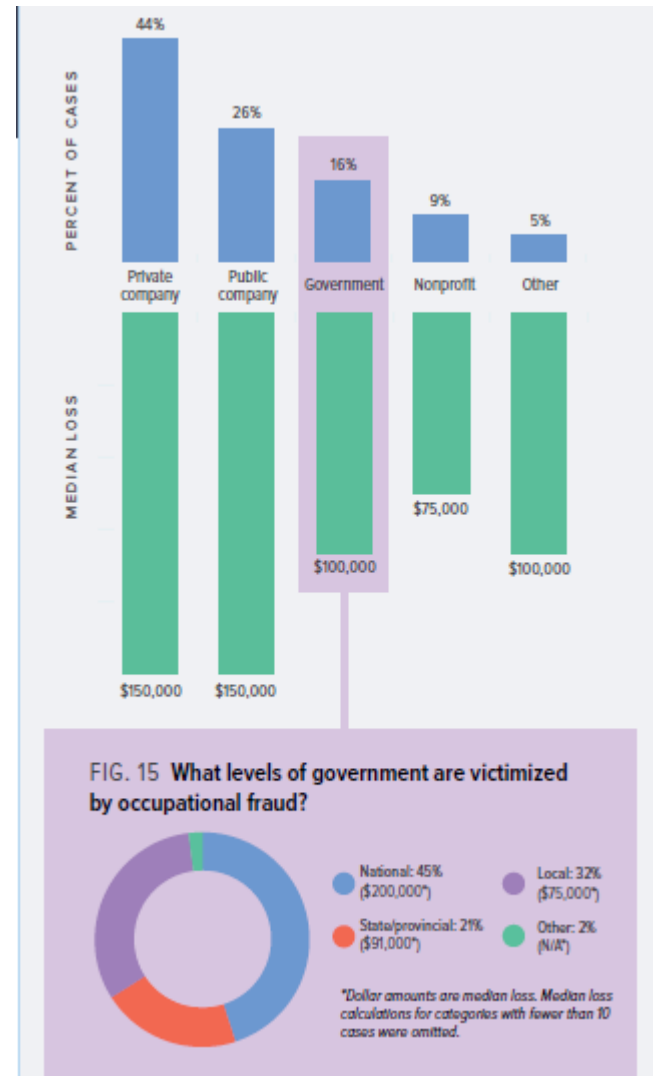


What types of organizations are victimized by occupational fraud?

1. Private company 44%
2. Public company 26%
3. **Government 16%**
4. Nonprofit 9%
5. Other 5%

What levels of government are victimized by occupational fraud?

1. National 45%
2. **Local 32%**
3. State/provisional 21%
4. Other 2%



What are the most common occupational fraud schemes in Government and public administration?

1. Corruption 48%
2. Billing 18%
3. Three-way tie 17%
 1. Expense reimbursement
 2. Noncash
 3. Payroll
4. Skimming 7%
5. Cash larceny 5%
6. Two-way tie 4%
 1. Check and payment tampering
 2. Financial statement fraud



Polling Question

- Which number of perpetrators creates the largest median loss?
 - One
 - Two
 - Three or More



Which number of perpetrators creates the largest median loss?



**ONE
PERPETRATOR**

 **\$90,000** Median loss



**TWO
PERPETRATORS**

 **\$105,000** Median loss



**THREE OR MORE
PERPETRATORS**

 **\$350,000** Median loss



What are the primary internal control weaknesses that contribute to occupational fraud?

32%-Lack of internal controls

18% -Lack of management review; Override of existing internal controls

10%-Poor tone at the top

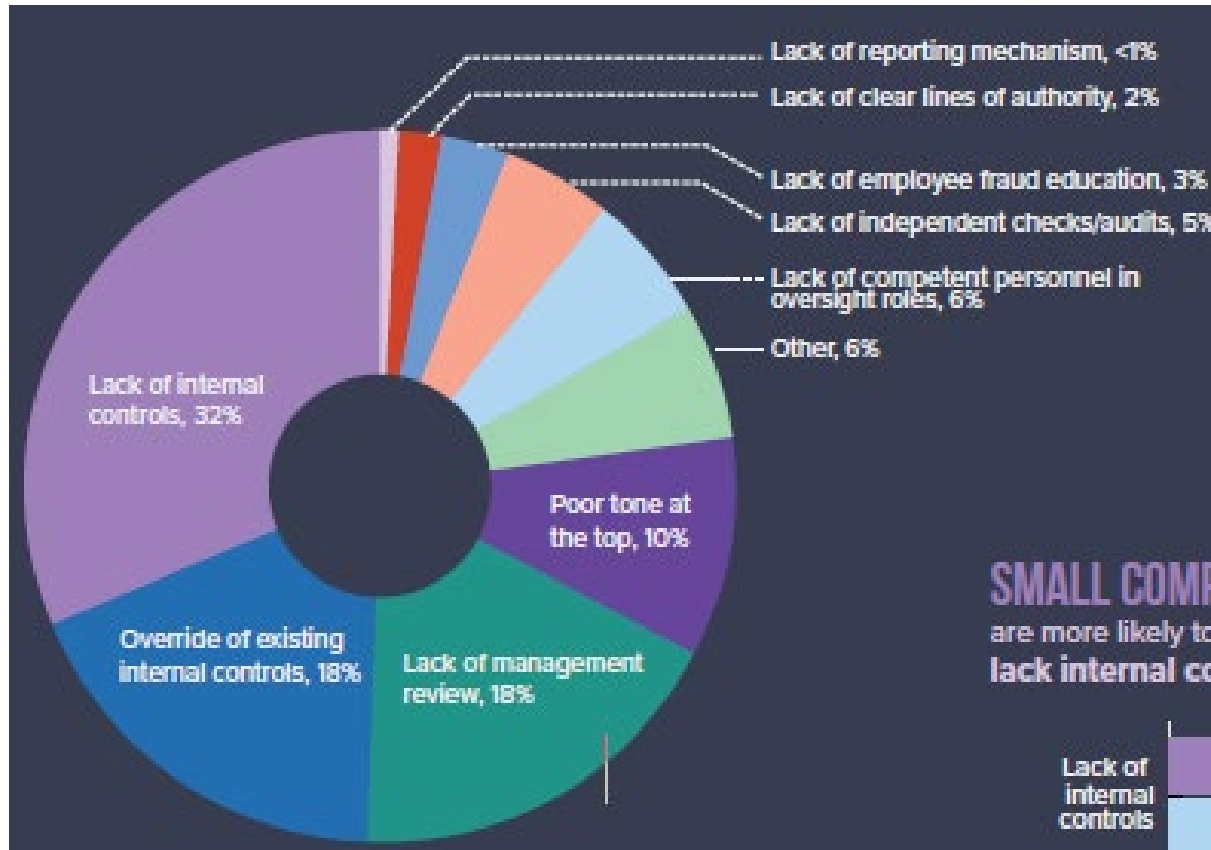
6%-Lack of competent personnel in oversight roles; Other

5%-Lack of independent checks/audits

3%-Lack of employee fraud education

2%- Lack of clear lines of authority

<1% Lack of reporting mechanism



How Occupational Fraud is Concealed

TOP 4 CONCEALMENT METHODS USED BY FRAUDSTERS



40%

Created fraudulent physical documents



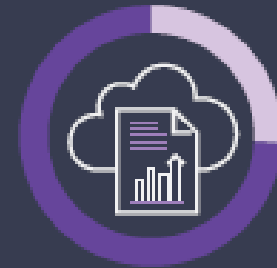
36%

Altered physical documents



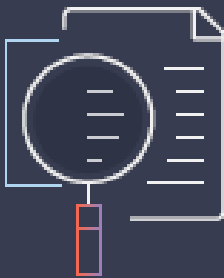
27%

Altered electronic documents or files



26%

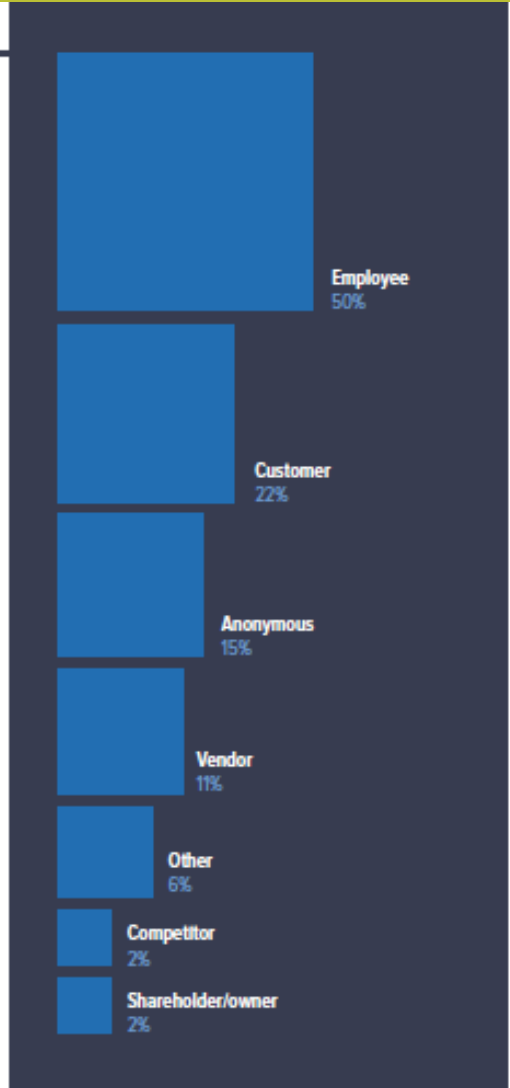
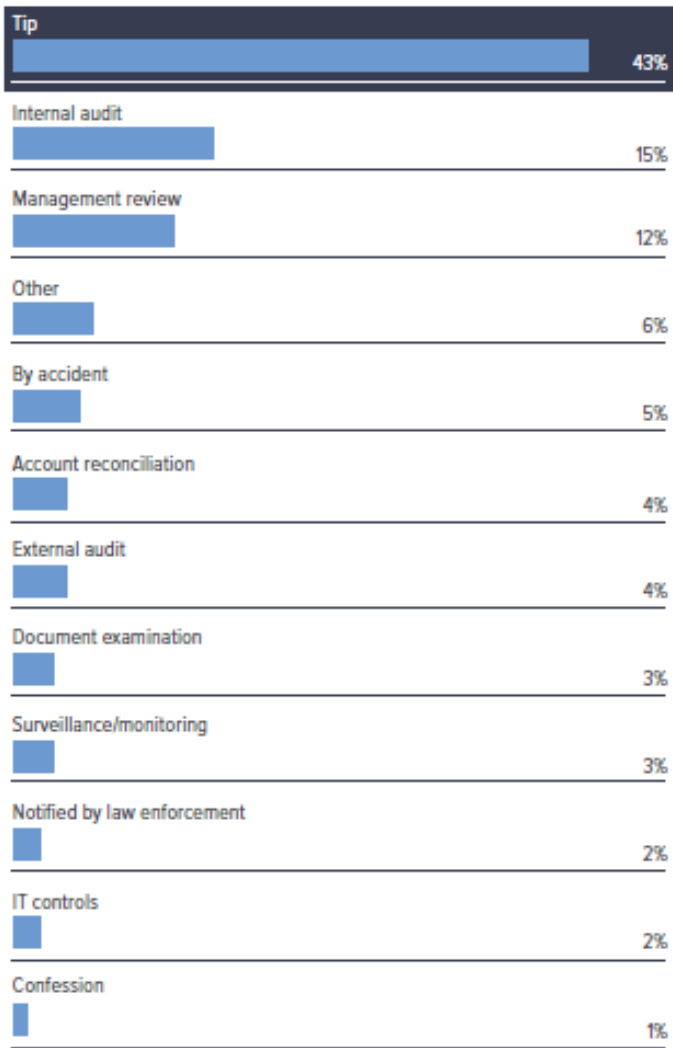
Created fraudulent electronic documents or files



12% did not involve any attempts to conceal the fraud



How is it detected and who reports it?



Polling Question

- What percentage of all Fraudsters displayed at least one behavioral red flag while committing their crimes.
 - 25%
 - 65%
 - 85%
 - 95%



Polling Question

85% OF ALL FRAUDSTERS displayed at least one **BEHAVIORAL RED FLAG** while committing their crimes.



Behavioral Red Flags of Fraud

7 KEY WARNING SIGNS



42%

Living beyond means



26%

Financial difficulties



19%

Unusually close association with vendor/customer



15%

Control issues, unwillingness to share duties



13%

Irritability, suspiciousness, or defensiveness



13%

"Wheeler-dealer" attitude

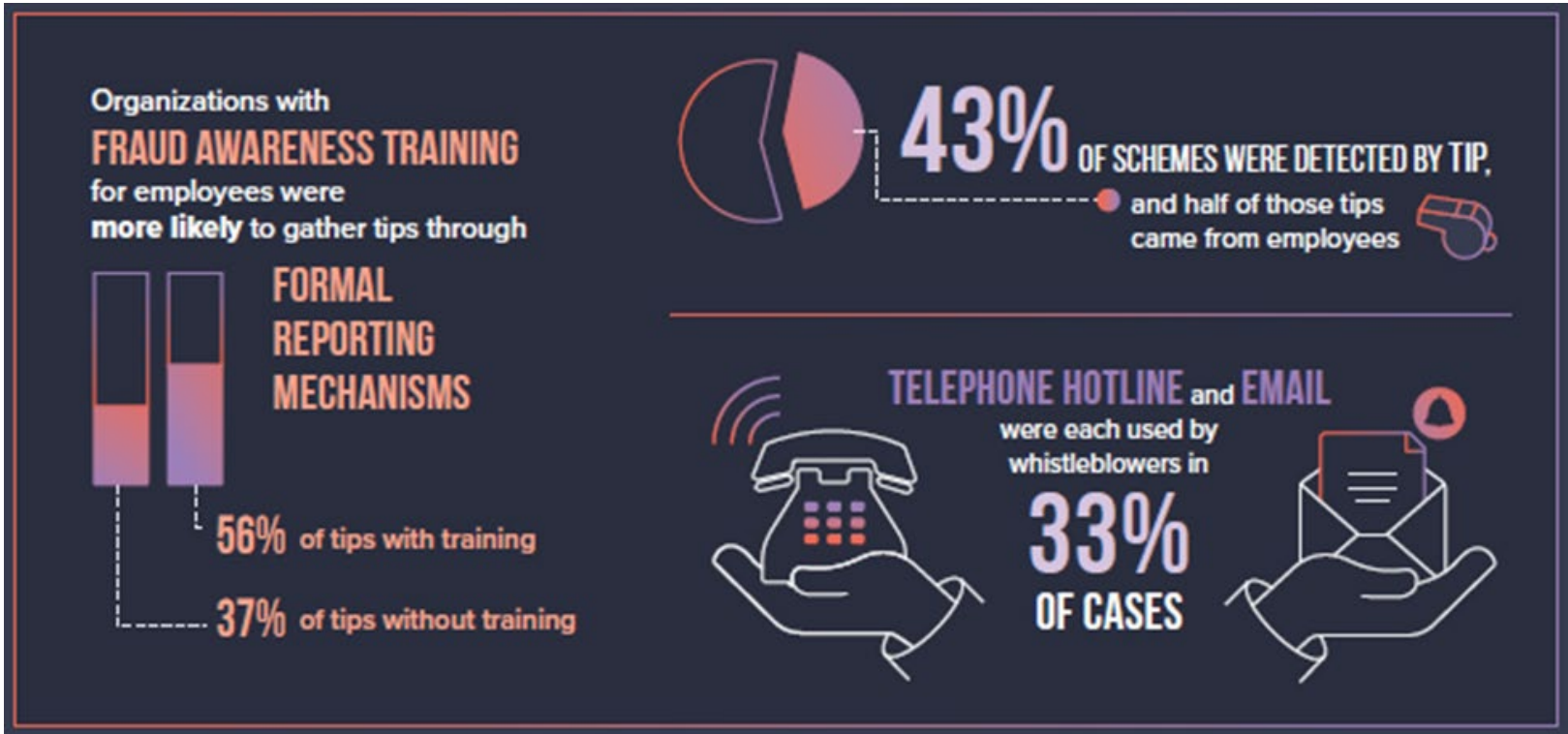


12%

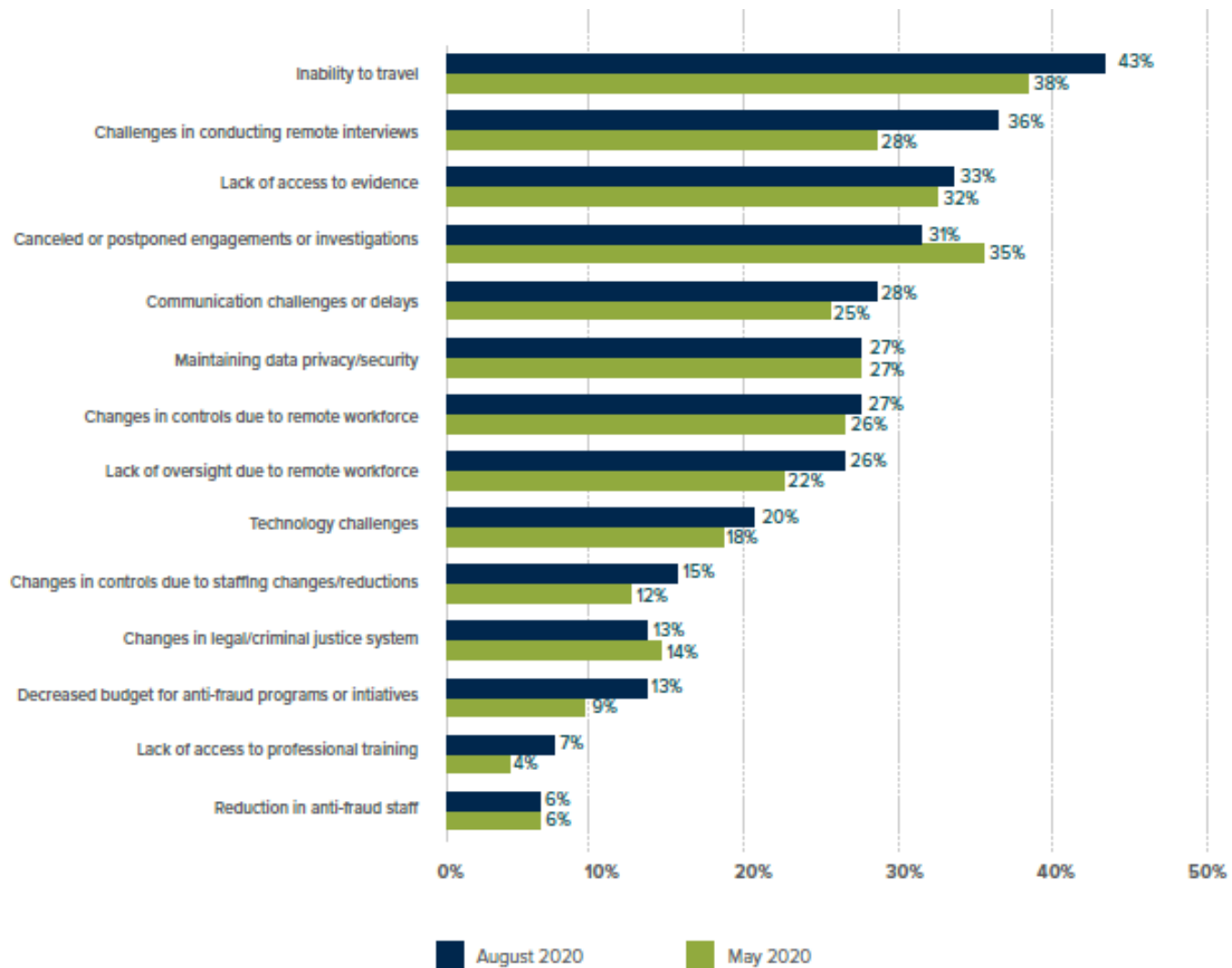
Divorce/family problems



Fraud Training Works



Most Prominent Challenges in Combating Fraud in the Wake of COVID-19



6 Steps to Stop or Mitigate Insider Fraud Risks

- Step 1: Update your fraud risk assessment and incorporate new factors emerging from the COVID-19 crisis
- Step 2: Identify, rank and address your risks
- Step 3: Upgrade our internal controls, policies and procedures
- Step 4: Communicate and engage the department and auditors
- Step 5: Investigate internal fraud incidents promptly
- Step 6: Report early



Step 1: Update your fraud risk assessment & incorporate new factors emerging from the COVID-19 crisis

- How could a fraudster exploit the recent changes?
 - Phase 2 County Status
 - Modified Lobby Hours
 - Office space modifications in keeping with social distancing
 - Shift to Mail, Phone, Online or Virtual Operations
 - Shift to alternating or all remote work environment
 - Web or electronic communications
 - Operational flux between in person to virtual depending on conditions
 - Limited in person procurement and vendor interactions
 - Modified client direct services interactions and incentives



Step 2: Identify, rank & address your risks

- Identify the changes that have been made due to the new operating environment, for example frequency vs high impact:
 - Shift to online payments
 - Software Overrides Permissions
- Rank them between low and high risk
 - Low chances of occurring Low impact to operations/organization
 - High chances of occurring, High impact to operations/organization
- Develop and design controls to address the changes with higher risk to lower risk-
 - Review of payment reconciliations, exception reporting
- Consider compensating controls if the ideal can't be met
- The selection of controls by management are to be evaluated for their efficiency and effectiveness to ensure that they are not too costly or cumbersome to maintain. Keep in mind that the control should not exceed the benefit to be derived from it.
- Written documentation of risk assessment may be required by regulatory entities both internal and external



Step 3: Upgrade your internal controls, policies & procedures

- Timely Reviews- increase/decrease timelines
- Monitoring- increase/decrease frequency
- Paper to digital documents- validation of digital documents
- Video dual payment processing- record keeping of event
- Signature & Approval, Version Controls- Microsoft Teams
- Update your P&Ps- written document
- Communicate them to your staff, internal & external customers- web page, acknowledgement of receipt
- Significant changes may require prior authorization and approval from regulatory entities both internal and external



Step 4: Communicate and engage the department & auditors

- Ensure that your internal and external customers are aware of the changes in how you operate
 - Emails
 - Signage
 - Webpage updates
 - Webinars/ YouTube
 - Social Media
 - County's FYI
- Significant changes may require consultation with regulatory entities both internal or external



Step 5: Investigate internal fraud incidents promptly

- Great care must be taken when investigating suspected improprieties or irregularities to avoid wrongful accusations or alerting suspected individuals that an investigation is under way. (ACFE)
- Whether a particular act is, in fact, fraud or noncompliance with provisions of laws, regulations, contracts or grant agreements might have to await final determination by a court of law or other adjudicative body. (ACFE)



Step 5: Investigate internal fraud incidents promptly

- Reporting requirement is not intended and should not prevent departments from conducting investigation of known or suspected loss of public assets or from taking appropriate administrative and/or disciplinary action based on the results of an internal investigation.
 - Administrative investigations should be conducted in keeping with adopted Clark County Personal Policy Manual and with BARS 3.10.2.30(4),(5) and 3.10.2.60
- Contact Audit Services and inform them of known or suspected loss



Step 6: Report early

- RCW 43.09.185 requires that all state agencies and local governments immediately notify the State Auditor's Office in the event of a known or suspected loss of public funds or assets or other illegal activity
- Complete and submit form "Report of Loss or Theft"
- Contact Audit Services for guidance



Key takeaways

- Update your fraud risk assessment and incorporate new factors emerging from the COVID-19 crisis
- Identify, rank and address your risks
- Upgrade our internal controls, policies and procedures
- Communicate and engage the department and auditors
- Investigate internal fraud incidents promptly
- Report early



Helpful Resources

- Clark County Auditor's Office
 - (564) 397-4795 or AuditServices@clark.wa.gov
 - www.clark.wa.gov/auditor
- Information Sources
 - Association of Fraud Examiners
 - <https://www.acfe.com/fraud-resources.aspx>
 - Six steps to stop or mitigate insider fraud risks
 - <https://www.pwc.com/us/en/library/covid-19/mitigate-insider-fraud.html>



Thank you!

Comments and questions

GREG KIMSEY, CLARK COUNTY AUDITOR

AUDIT SERVICES

**Larry Stafford, Audit Services Manager
Arnold Pérez**

1300 Franklin Street Suite 575, P.O. Box 5000, Vancouver, WA 98666-5000

*For further information about this contact: Clark County [Audit Services](#)
Via email AuditServices@clark.wa.gov or phone (564) 397-2310 ext.4795*

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*For other formats, contact the [Clark County ADA Office](#): Voice (564) 397-2322
Relay 711 or (800) 833-6388; Fax (360) 397-6165; E-mail ada@clark.wa.gov*

