

Fraud: What's New and What To Do About It



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- Types of Occupational Fraud
- Fraud in the News
- Association of Certified Fraud Examiners (ACFE) – 2018 Report to the Nations
- Fraud Triangle

- Internal Controls to Address Fraud Risks
- In the News part 2



OCCUPATIONAL FRAUD

- Corruption
- Financial statement fraud
- Asset misappropriation





FRAUD IN THE NEWS

- Bribery
- Spear phishing
- Utility scheme social engineering
- Forgery
- Embezzlement



WHO ARE THESE PEOPLE?

SURVEY SAYS ...

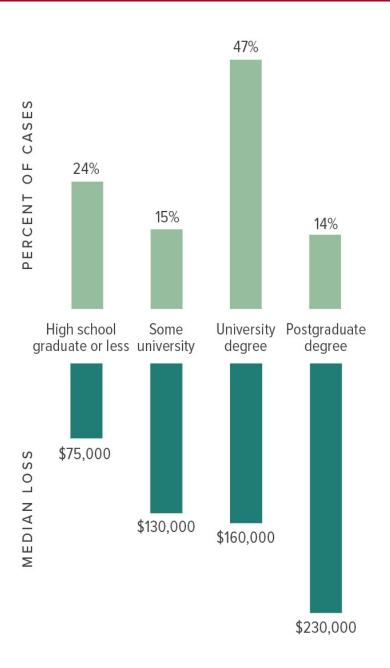
Fraudsters were generally Male

53% of the fraudsters were between the ages 31 and 45

50% worked at the organization Less than 5 years

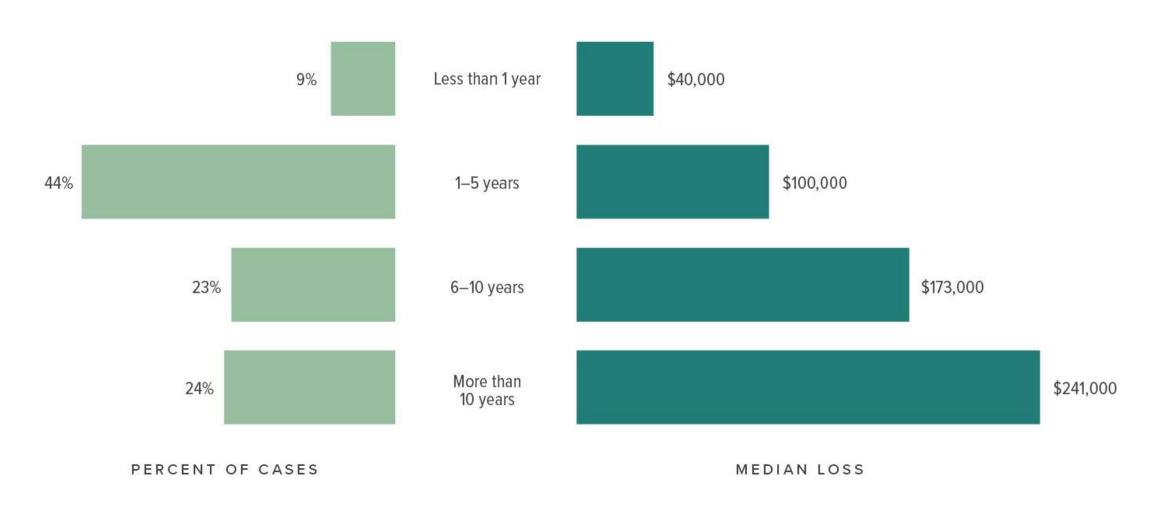
- United States had the most even distribution between males and females: men accounted for 58% of frauds, and women were responsible for 42%.
- 53% of the fraudsters were between the ages 31 and 45.
 Over 60% of fraudsters have a college degree.
- 53% worked at the organization less than 5 years, but the losses increase dramatically with increased tenure.

HOW DOES THE PERPETRATOR'S EDUCATION LEVEL RELATE TO OCCUPATIONAL FRAUD?



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HOW DOES THE PERPETRATOR'S TENURE RELATE TO OCCUPATIONAL FRAUD?





SURVEY SAYS ...

Median loss for all cases was \$108,000

Asset misappropriation occurred in 89% of cases

Median duration of the frauds was 16 months

- Asset misappropriation by far the most common form of occupational fraud
- Among various forms of asset misappropriation, BILLING SCHEMES and CHECK TAMPERING posed the greatest risk based on relative frequency and median loss
- Most common concealment methods were creating and altering physical documents

SURVEY SAYS ... COMMON REPORTING METHODS IN CASES DETECTED BY TIP

42%
Telephone hotlines

26% Email

23% Web-based or online form

SMALL ORGANIZATIONS

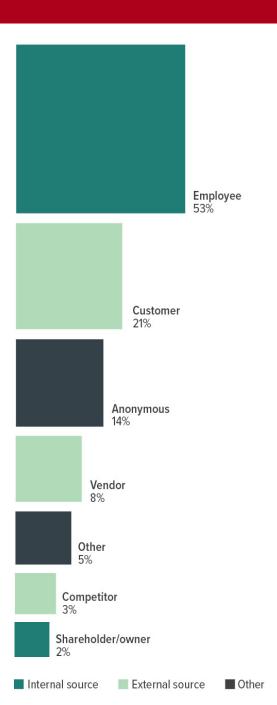
- Those with fewer than 100 employees experienced a median loss of \$200,000, those with more than 100 employees had a median loss of \$104,000
- Small organizations have significantly lower implementation rate of anti-fraud controls than large organizations



SURVEY SAYS ...

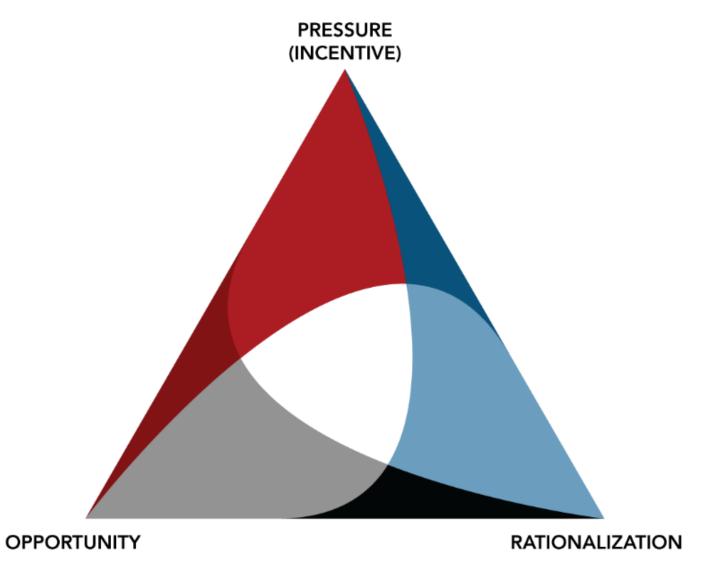


WHO REPORTS OCCUPATIONAL FRAUD?



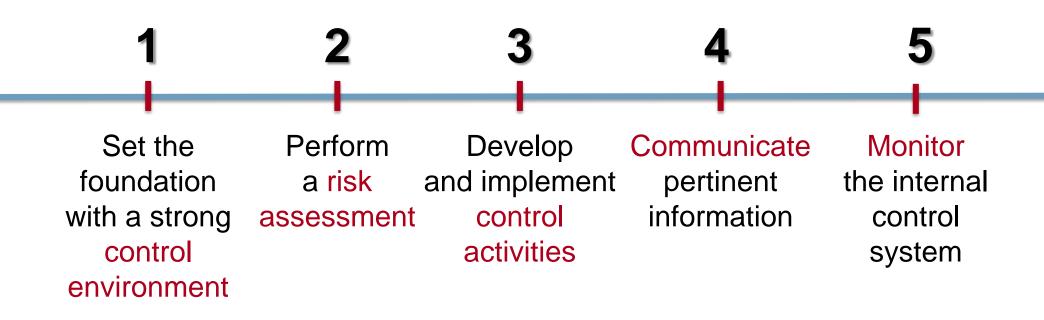


WHY IS FRAUD COMMITTED?





DEVELOP INTERNAL CONTROLS TO ADDRESS FRAUD RISKS



- Competency
- Ethics
- Responsibility
- Management's philosophy
- Tone at the top
- Human resources
- Authority

- Integrity
- Values
- Staff development
- Management's operating style
- BOD attention
- BOD direction





RISK	LIKELIHOOD TO OCCUR	IMPACT OF RISK			OVERALL RISK RATING
		Financial	Security	Operational	
Low	Low likelihood: 1	Low impact: 1	Low impact: 1	Low impact: 1	Low overall risk: 4 - 5
Medium	Medium likelihood: 2	Medium impact:	Medium impact:	Medium impact: 2	Medium overall risk: 6 - 8
High	High likelihood: 3	High impact: 3	High impact:	High impact: 3	High overall risk: 9 - 12

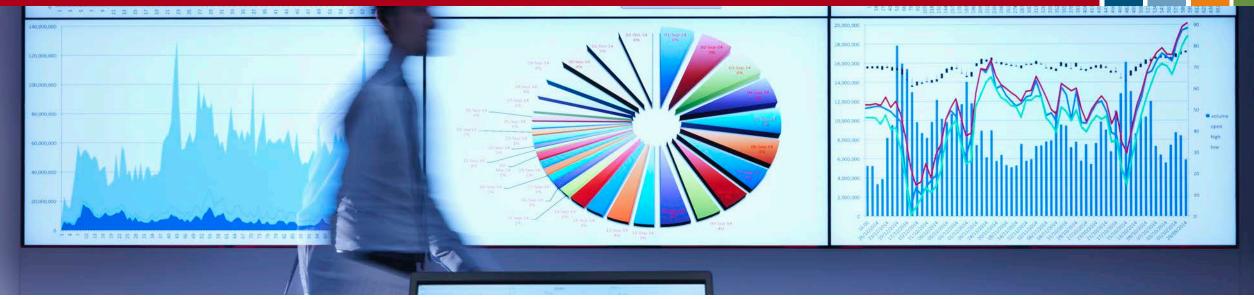


WHAT ARE INTERNAL CONTROLS?

SYSTEMIC MEASURES INSTITUTED BY AN ORGANIZATION TO:

- ✓ Conduct its business in an orderly and efficient manner
- ✓ Safeguard its assets and resources
- ✓ Deter and detect errors, fraud and theft
- Ensure accuracy and completeness of accounting data
- Produce reliable and timely financial and management information
- ✓ Ensure adherence to its policies and plans





- Authorization
- Security
- Locks
- Verification
- Review
- Approval
- Reconciliation
- Segregation of duties



Segregate these duties:

- ✓ Authorization
- Custody
- ✓ Recordkeeping

Establish policies and procedures:

- ✓ Written
- ✓ Followed

Monitor establish controls



CASH

- Cash receipts
- Cash disbursements
- Bank account reconciliation segregation of duties



2 ACCOUNTS PAYABLE

- Maintain a master vendor list along with appropriate segregation of duties
- Small business –
 owner should
 review/sign all check
 disbursements



3 ACCOUNTS PAYABLE

- Only receive electronic customer payments or through a lockbox
- Ensure bad debt charge-offs are appropriate
- Segregation of duties between posting sales/receipts and reconcilement
- Review general ledger posting detail for AR



CASH RECEIPTS CYCLE

- Recording deposits
- Development and accounting
- Bank reconciliations





CASH DISBURSEMENTS CYCLE

- Check signors
- Invoice approval

Company credit cards







PAYROLL CYCLE

- Hiring and terminating employees
- Approval of timesheets
- Review of payroll register
- Review of change/exception reports



BOARD INVOLVEMENT

- Financial professional
- Benchmarking
- Dashboards





PHYSICAL CONTROLS



PAYROLL

- Segregate duties between payroll setup and approval
- Non-HR employee within senior management should review and sign off on payroll change reports
- Payroll vendor reports should be received directly from someone outside the payroll function
- Payroll should be reconciled to the general ledger with a separate individual reviewing

JOURNAL ENTRIES

- All manual journal entries should be reviewed by someone not capable of posting entries
- Ensure manual journal entry support is retained

BUDGET VS. ACTUAL

- Maintain a budget; track against actual results monthly
- Set scopes and expectations to ensure a quality review







COMMUNICATION

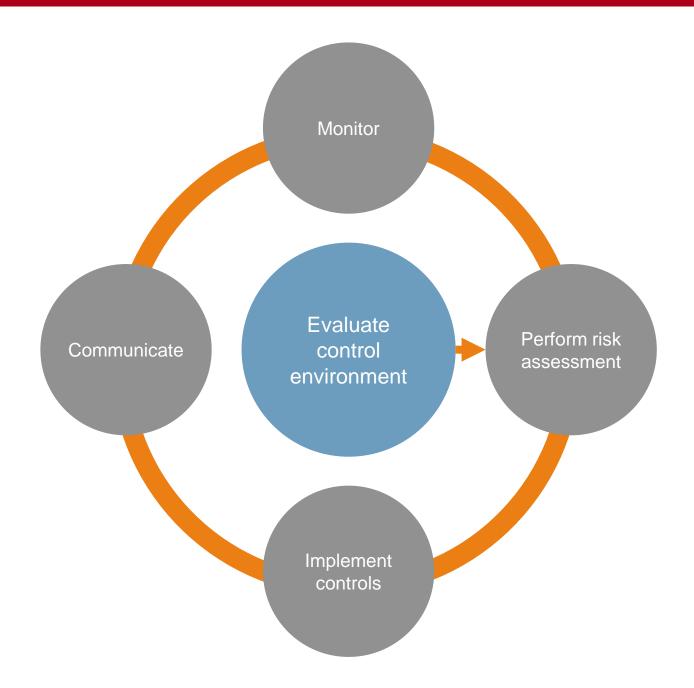
- Quality of Information
- Effectiveness of Communication



MONITORING

- Unmonitored controls tend to deteriorate over time.
- Ongoing monitoring activities evaluate and improve the design, execution and effectiveness of internal control.





Former president of charity stole \$3.8M, lawsuit alleges

Administrator at Pre-School Stole from Parent's Accounts \$150 million settlement announced in VT ski resort fraud case

N.H.
Businessman
sentenced in
theft case

Farmington Woman
Sentenced to 30 Months in
Prison for Mail Fraud and
Filing False Tax Returns

Our View: Massive embezzlement from small Maine town should be wake-up call Former Westbrook employee accused of embezzling \$118,000

Bridgewater Corners woman sentenced for embezzlement

Piermont Woman
Accused of Embezzling
From Employer

Authorities: Bar Owner Embezzled \$168,000 Intended for Charities

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CONCLUDING THOUGHTS

- Emphasize ethics and accountability
- Reconcile records
- Maintain Board involvement
- Develop an inquiring culture
- Remember a second set of eyes
- Have an avenue for reporting breaches
- Information security



RESOURCE

ACFE 2018 Report to the Nations http://www.acfe.com/rttn2018.aspx



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