

FRAUD

(Create a 2-Sided Triangle)



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Objectives



What is fraud?

Who is susceptible and why?

How can you protect your company?



FRAUD - Defined

- Occupational Fraud – the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.

Fraud Statistics:

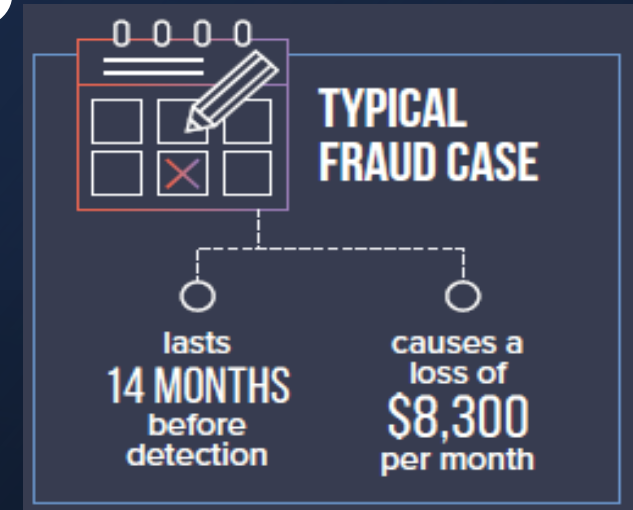
ACFE 2020 Report to the Nations

REPORT TO THE NATIONS®

2020 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE



Key Findings



ASSET MISAPPROPRIATION SCHEMES are the most common and least costly

86%
OF CASES

\$100,000
median loss

FINANCIAL STATEMENT FRAUD SCHEMES are the least common and most costly

10%
OF CASES

\$954,000
median loss

CFEs ESTIMATE THAT ORGANIZATIONS LOSE

5% OF REVENUE TO FRAUD EACH YEAR

MEDIAN LOSS PER CASE:

\$125,000

AVERAGE LOSS PER CASE:

\$1,509,000

Key Findings

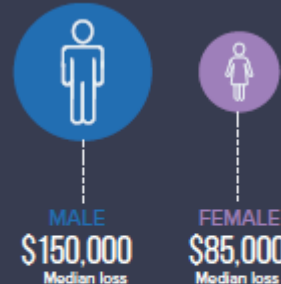
CERTAIN FRAUD RISKS
WERE MORE LIKELY IN
SMALL BUSINESSES
THAN IN LARGE
ORGANIZATIONS:



Billing fraud	2X HIGHER
Payroll	2X HIGHER
Check and payment tampering	4X HIGHER



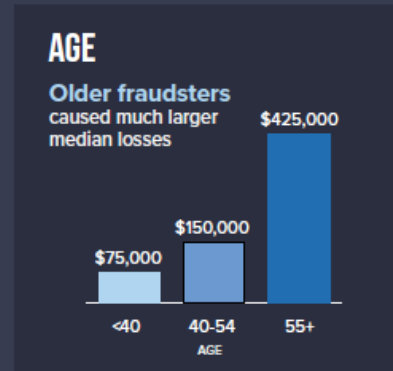
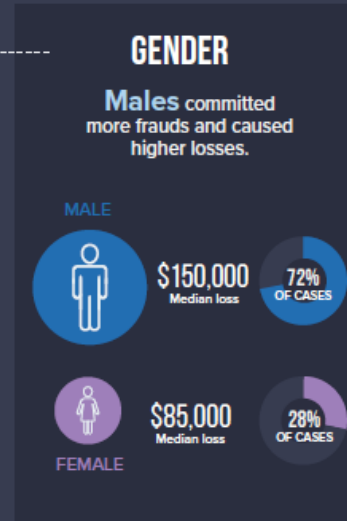
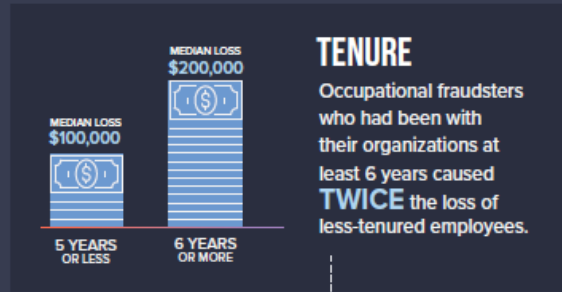
MORE THAN HALF of all occupational
frauds came from these four departments:



Men committed **72%**
of all occupational fraud,
and also caused
larger losses than women

Profile of a Fraudster

Our study includes perpetrator data from more than 2,000 fraud cases, which can help organizations assess fraud risk in their own workforces.



Types of Fraud

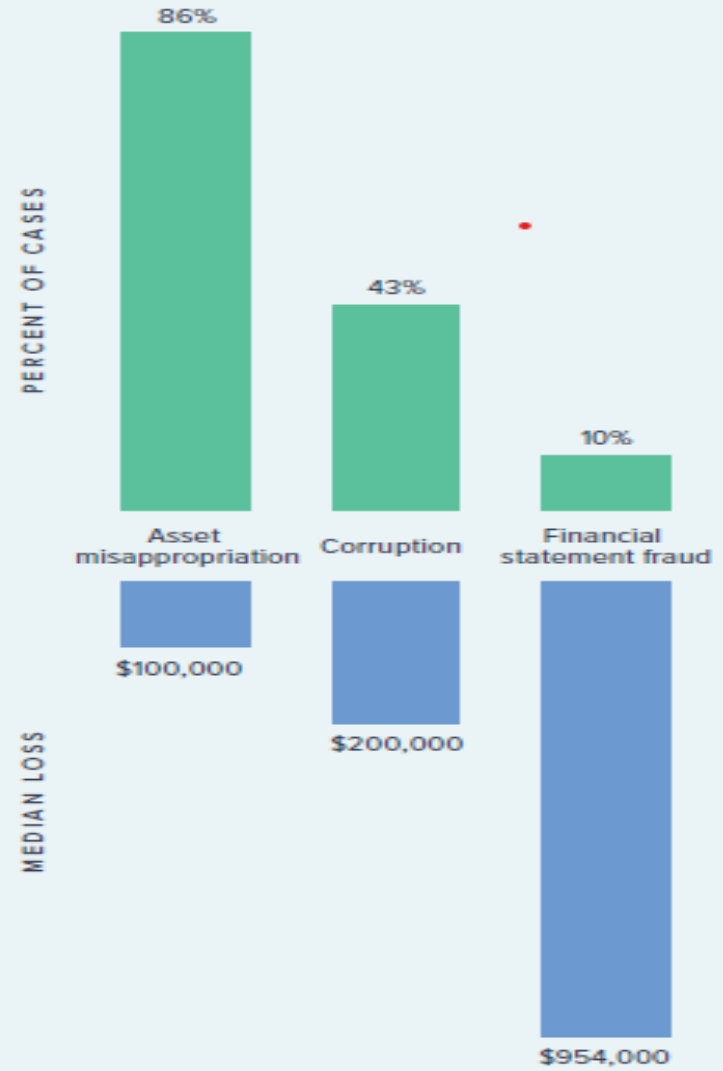
Asset Misappropriation – happens when people who are entrusted to manage the assets of an outside organization steal from it (theft of cash, fraudulent disbursements, misuse of inventory and assets).

Corruption – dishonest behavior by those in positions of power (accepting bribes, under-the-table transactions, diverting funds, laundering money).

Financial Statement Fraud – the deliberate misrepresentation of the financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosure in the financial statements to deceive financial statement users (erroneous journal entries).

Types of Fraud

FIG. 2 How is occupational fraud committed?



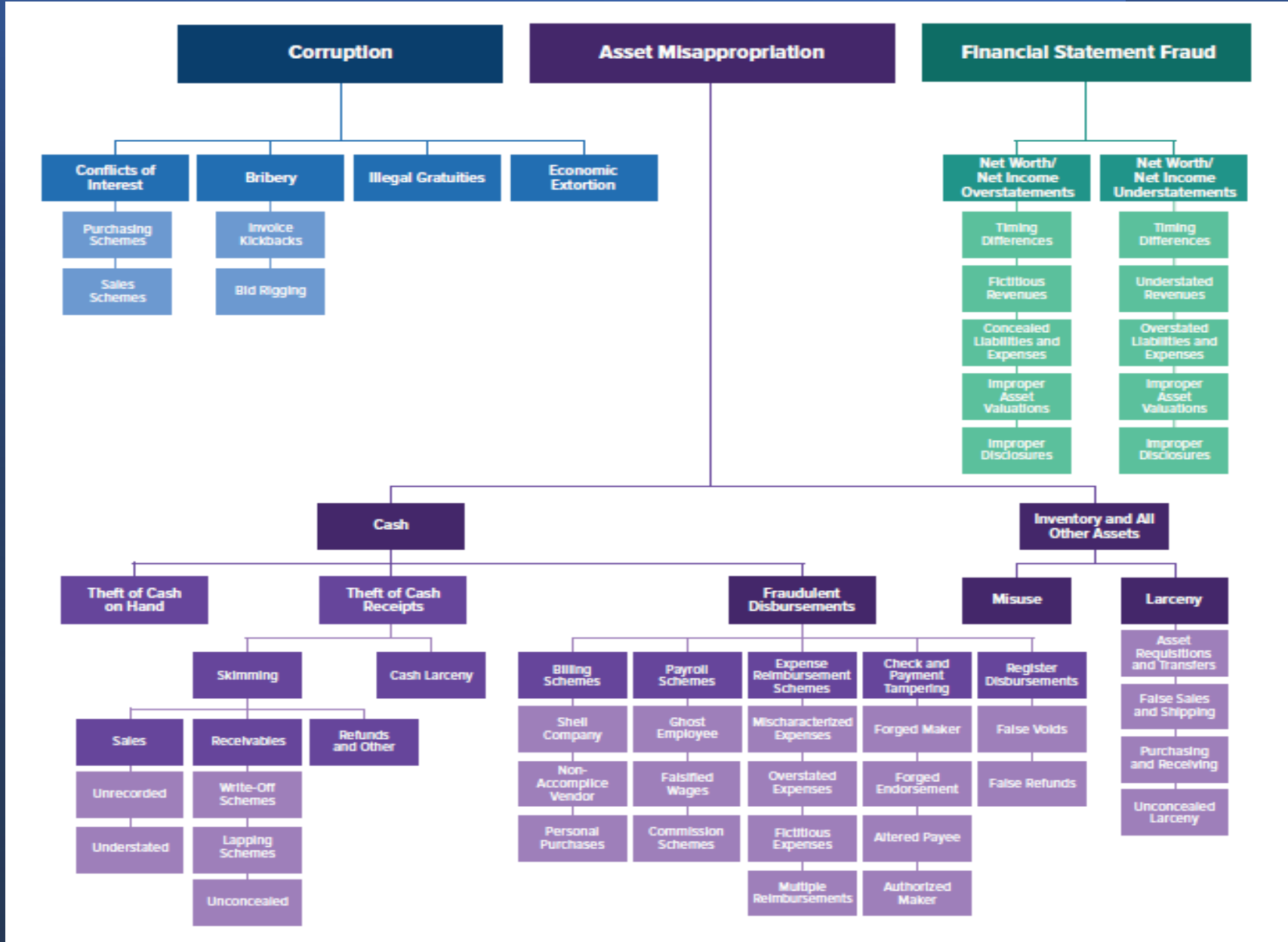
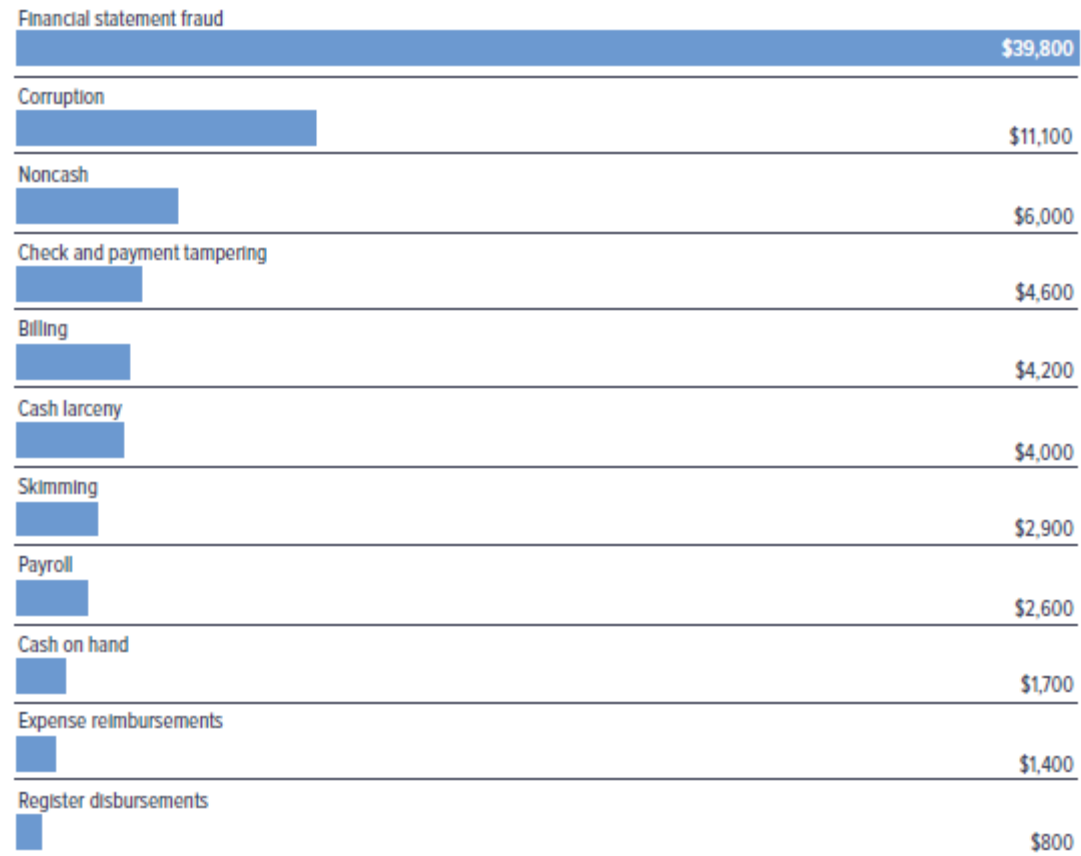


FIG. 8 What is the typical velocity (median loss per month) of different occupational fraud schemes?



Victim Organizations

FIG. 14 What types of organizations are victimized by occupational fraud?

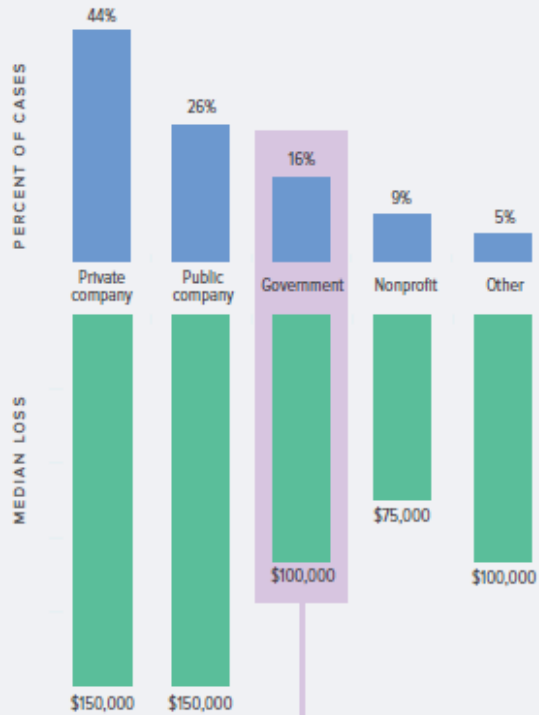


FIG. 15 What levels of government are victimized by occupational fraud?

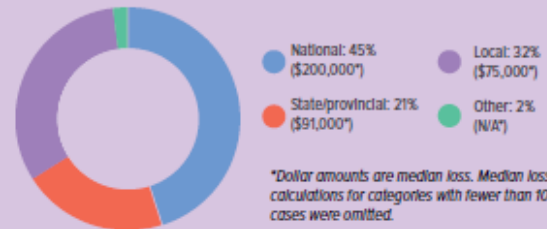


FIG. 19 How does occupational fraud affect organizations in different industries?



The Fraud Triangle



PRESSURE



Behavioral Red Flags

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



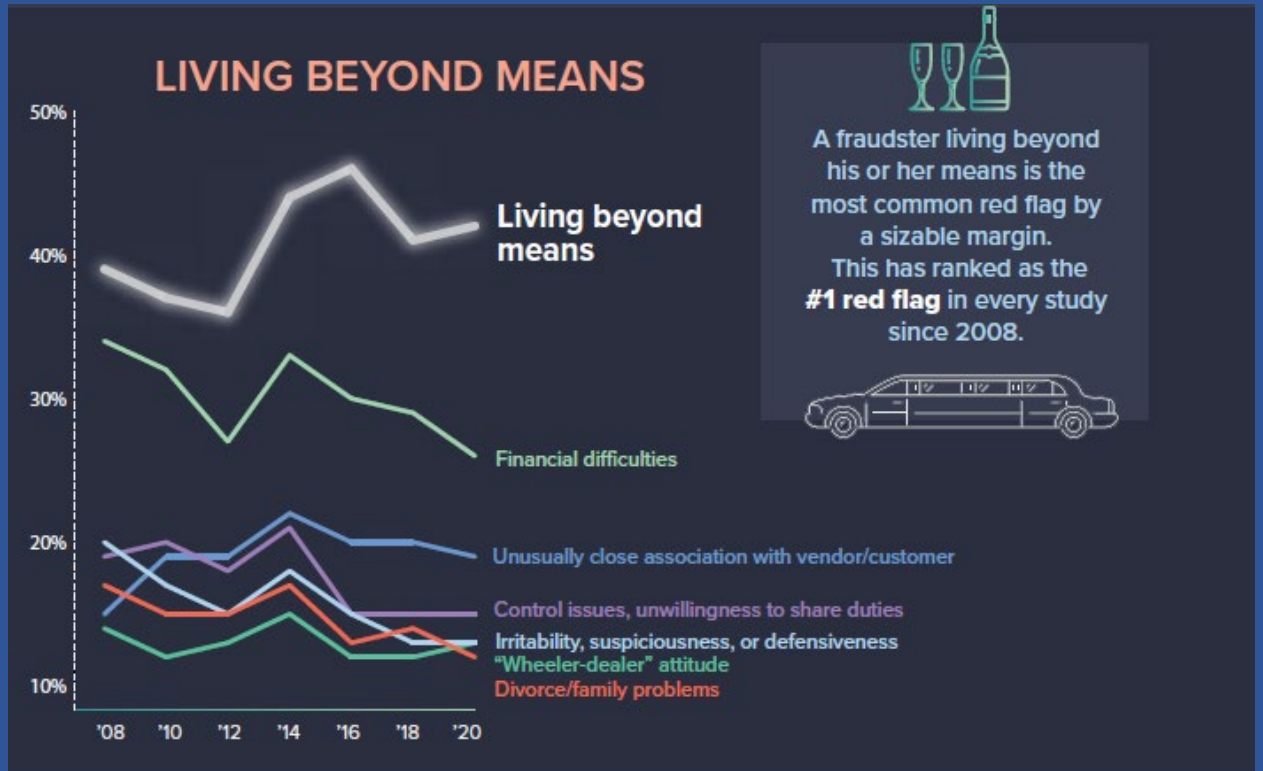
13%

"Wheeler-dealer" attitude



12%

Divorce/family problems



RATIONALIZATION

Rationalization

“I don't get paid what I'm worth!”

“Everyone else is doing it!”

**“If they don't know I'm doing it,
they deserve to lose the money”**

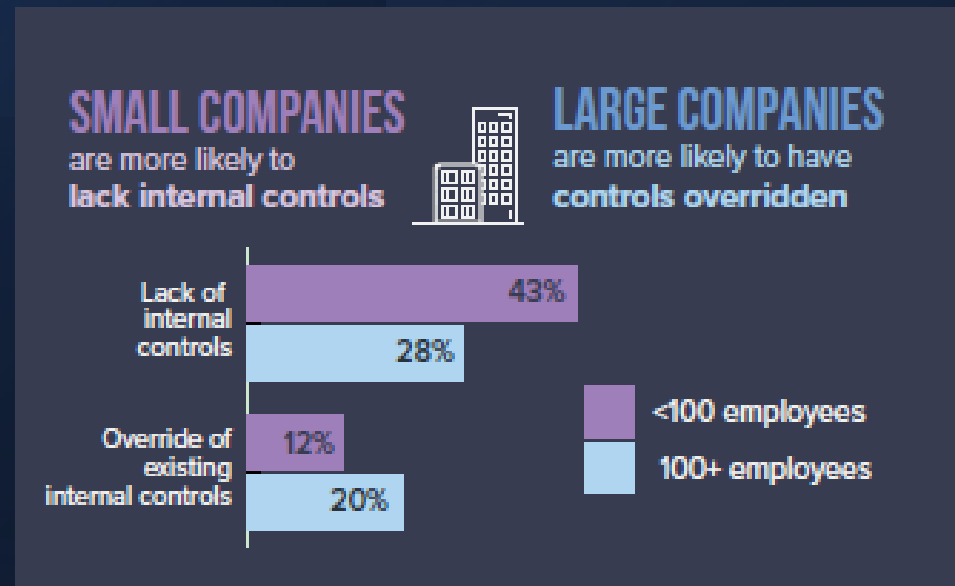
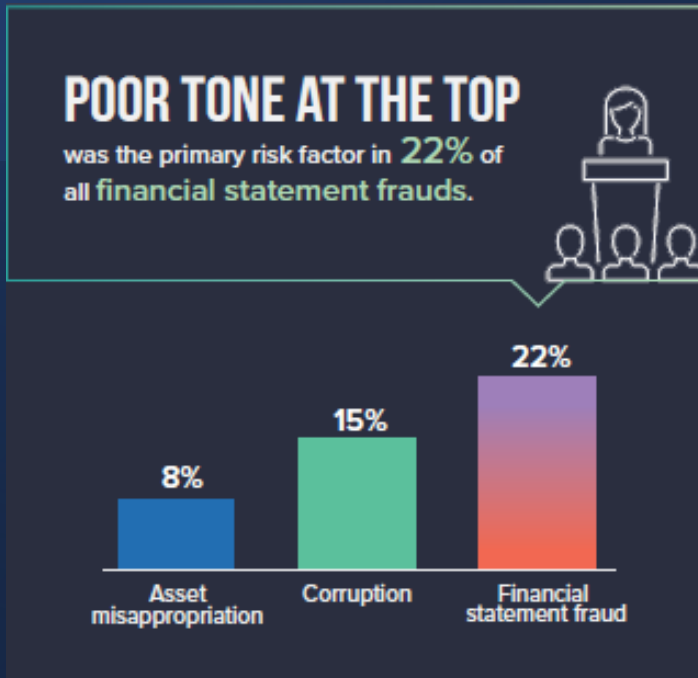
“I intended to pay it back”

“Nobody will miss the money”



OPPORTUNITY

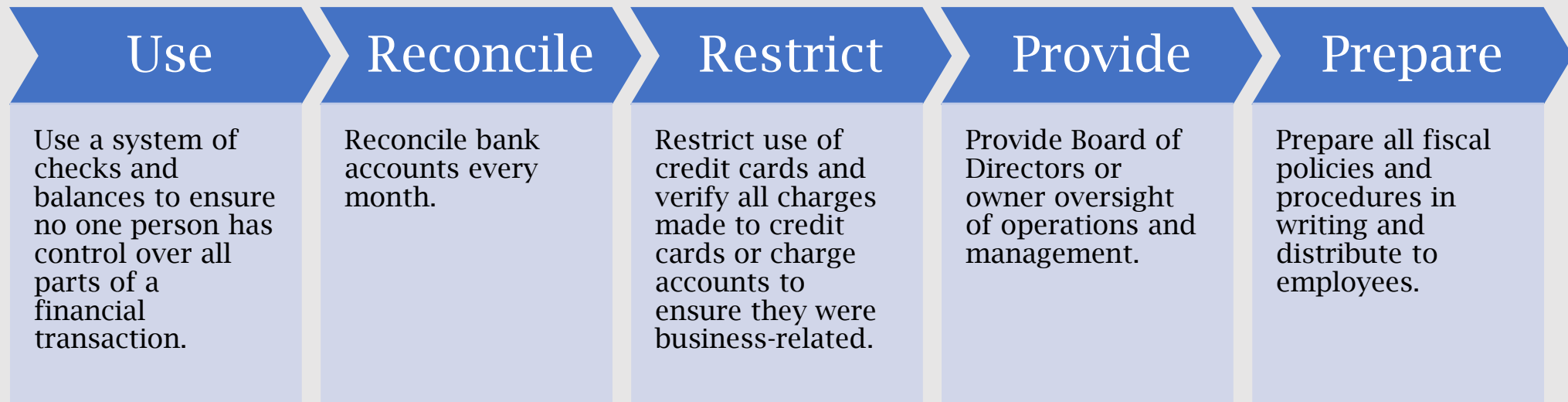
Limit the Opportunity



Limit the Opportunity

- Segregation of Duties
- Internal Controls
- Checks and Balances

Internal Controls to Prevent and Detect Fraud



Internal Controls to Prevent and Detect Fraud

Ensure

Ensure that assets such as vehicles, cell phones, equipment, and other resources are only used for official business.

Secure

Secure petty cash funds and other cash funds.

Safeguard

Safeguard checks against fraudulent use.

Protect

Protect cash and check collections.

Avoid

Avoid or discourage related party transactions.

System of Checks and Balances

- Require purchases, payroll, and disbursements to be authorized by a designated person.
- Separate handling (receipt and deposit) functions from record keeping functions (recording transactions and reconciling accounts).
- Separate purchasing functions from payables functions.
- Ensure that the same person isn't authorized to write and sign a check.
- When opening mail, endorse or stamp checks "For Deposit Only."
- Require supervisors to approve employees' time sheets before payroll is prepared.
- Require accounting department employees to take vacation.
- *If you can't separate duties, involve the board or management/owner (oversight).*

Account Reconciliations

- Require reconciliation be prepared by someone independent of bookkeeping and check signing duties.
- Examine cancelled check images to make sure vendors are recognized and signatures are authorized.
- Examine bank statements to make sure checks are not issued out of sequence.
- Initial and date the bank statements or reconciliation report to document review/authorization.
- *Have the bank statement directly mailed to someone on the board of directors or an owner/manager with no bookkeeping/check signing authority to review unopened prior to reconciliation.*

Restrict Use of Credit Cards

- Limit the number of credit cards/users.
- Establish a written policy that credit cards are for business use only; prohibit use of cards for personal purposes with subsequent reimbursement.
- Set account limits with credit card companies or vendors.
- Require employees to submit itemized, original receipts for all purchases.
- Examine credit card statements and corresponding receipts to determine whether charges are appropriate and related to agency business.
- *Do not allow the use of debit cards within your organization.*

Prepare Written Policies

- Prepare written policies for the following:
 - *Cash Disbursements*
 - *Attendance and Leave*
 - *Expense and Travel Reimbursements*
 - *Use of Company Assets*
 - *Purchasing Guidelines*
 - *Petty Cash*
 - *Conflicts of Interest*

Obtain signed authorization from each employee that they have read/understand the written policies.

Ensure Assets are for Business Use Only

- Examine expense reports, credit card charges, and telephone bills regularly to determine charges are business-related.
- Maintain vehicle logs, listing dates, times, mileage, purpose of trip.
- Maintain an equipment list and perform an equipment inventory regularly.
- Install security cameras where inventory and other assets are stored and monitor frequently.
- *There is no such thing as too much documentation!*

Protect Cash Funds

- Limit access to petty cash funds.
- Keep funds in a locked box/drawer and restrict access to a limited number of employees.
- Reconcile petty cash with supporting receipts before replenishing it.
- Keep receipt funds separate from petty cash funds.
- *Limit how much is kept in petty cash at any given time.*

Protect Checks

- Prohibit writing checks to cash.
- Deface and retain voided checks.
- Secure blank checks in a locked drawer/cabinet and limit employee access.
- Require that checks be signed only when all required information is entered on the check and supporting documentation (invoice) is attached.
- Require two signatures on checks above a specified amount.
- Mark invoices “Paid” with the check number when checks are issued.
- *Ensure that blank checks are not pre-signed.*

Protect Cash and Cash Collections

- Ensure that all cash and checks received are promptly recorded and deposited in the form originally received.
- Make daily deposits.
- Issue receipts for cash, using a pre-numbered receipt book.
- Reconcile daily deposits with appropriate documentation (cash reports, receipt books).
- Install security cameras where cash is collected and monitor frequently.
- *Centralize cash receipts whenever possible.*

Discourage Related Party Transactions

- Require that a written conflict of interest and code of ethics policy is in place and that it is updated annually.
- Require that related party transactions be disclosed and are approved by the Board.
- Require competitive bidding for major purchases and contracts.
- *Discourage hiring of relatives and business transaction with board members and employees.*

Final Thoughts

1

Work with your CPA - even your auditor is here to help!

2

Protect your company *and* your employees.

3

Create a culture that doesn't tolerate fraud.

4

Ask questions!!!!!!!

QUESTIONS?

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