



Fraud Risk - Are you covered?

FGFOA Central Florida Chapter
March 6, 2015

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What you should take away from this presentation

- * An introduction to the Association of Certified Fraud Examiners (ACFE)
- * Are you and your organization covered?
- * Have you thought of everything? Is that possible?
- * What are you missing?
- * How fraud can affect you both professionally and personally
- * The function of fraud

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What you should take away from this presentation

- * Key types and areas of fraud you should be aware of
- * Common red flags of fraud
- * Types of anomalies to be aware of
- * How you can help prevent and deter it
- * What do you do if you detect it
- * Case scenarios to review:
 - Conflict of Interest/Potential Abuse of Power/Position
 - Employee embezzlement
 - Pcard and expense fraud

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What is the ACFE

The ACFE is the world's premier provider of anti-fraud training and education.

Together with over 70,000 members, in over 150 countries, the ACFE is reducing business fraud world-wide and inspiring public confidence in the integrity and objectivity within the profession.

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The Association of Certified Fraud Examiners (ACFE) is leading the development of the fraud investigation profession

The mission of the Association of Certified Fraud Examiners is to reduce the incidence of fraud and white-collar crime and to assist the Membership in its detection and deterrence. To accomplish our mission, the ACFE:

- * Provides bona fide qualifications for Certified Fraud Examiners through administration of the CFE Examination
- * Sets high standards for admission, including demonstrated competence through mandatory continuing professional education
- * Requires Certified Fraud Examiners to adhere to a strict code of professional conduct and ethics
- * Serves as the international representative for Certified Fraud Examiners to business, government and academic institutions
- * Provides leadership to inspire public confidence in the integrity, objectivity, and professionalism of Certified Fraud Examiners

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General Overview of career paths

- * Public Accounting
- * Public and Private Industry
- * Law Enforcement
- * Governmental

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What does a CFE do?

The typical types of services performed :

- *Examine records for fraud
- *Interview suspects
- *Write reports
- *Present investigation findings
- *Testify in court
- *Conduct background checks
- *Investigate employee theft
- *Forensic Accounting

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What does a CFE do?

- *Data recovery
- *Conflict of interest investigations
- *Insurance claim investigations
- *Financial statement analysis
- *Business valuation
- *Calculate damages
- *Litigation support
- *Corporate investigations

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What does a CFE do?

- *Locate hidden assets
- *Reconstruct accounting records
- *Computer forensics
- *Transaction analysis
- *Review of financial statement

And so much more....

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What skill sets do you need to be a CFE?

The CFE process focuses on four bodies of knowledge critical to the fight against fraud:

- * Financial Transactions
- * Investigation
- * Law
- * Criminology

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What skill sets do you need to be a CFE?

CFE's have the ability to:

- * Understand how fraud is committed and how it can be identified.
- * Examine books and records to detect and trace fraudulent transactions.
- * Interview suspects to obtain information and confessions.
- * Write investigation reports, advise clients as to their findings and testify in trials.
- * Understand the underlying factors that motivate individuals to commit fraud.
- * Use those skills to help develop and train professionals both internal and external to companies to prepare and implement a comprehensive fraud prevention program.

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How to become certified...

1. Join the ACFE and become an Associate Member in good standing.
2. Determine if you can become certified by waiver of exam or if you wish to take the CFE Examination.
See: <http://www.acfe.com/become-cfe-qualifications.aspx>
3. Fill out the certification application available on line and submit it, along with **proof of your education** and three letters of **professional recommendation** to the Membership Department at ACFE Headquarters. We recommend you gather your documentation and send it all together along with your application approximately one month before you are ready to take the CFE exam.
4. Gain final approval from the certification committee and become a CFE.

This information is available on www.tampabaycfe.org

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Tampa Bay Chapter ACFE

General Information

- * Our website: www.tampabaycfe.org
- This website provides the following information:
- * Dinner meetings - dates, times, place, maps as well as CPE topic
 - * Seminars - times, dates, place and CPE topic
 - * Listing of board members and officers
 - * Current events related to the industry
 - * Our newsletter filled with recent events, chapter news and other items of interest.
 - * General information and contact information for the local and national chapter.

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What is fraud?

The actual definition of fraud depends on who you speak with or research.

ACFE Defines fraud in terms of types of fraud:

- * Organizational Fraud
- * Occupational Fraud
- * Ensuring compliance with policies of the organization
- * Evaluating the level of performance in all organizational units

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Fraud

It is all in the headlines, you don't have to look very far these days...

Local, State, and Federal Governmental entities are suffering from fraud in some form or fashion, and some are not even aware of it yet!

No industry seems to be immune from it.

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Fraud

At the heart of the matter...
for a Governmental Agency *public trust*
should be the foundation for everything it
does!

Without it a mission cannot be
accomplished!

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Fraud – What is at risk?

- * Public Trust
- * Reputation
- * Credibility
- * Stability
- * Employee/Volunteer Base

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ACFE 2014 Report to the Nation Highlights

The ACFE's 2014 *Report to the Nations on Occupational Fraud and Abuse* is based on data compiled from a study of 1,483 cases of occupational fraud that occurred worldwide between January 2010 and December 2011. All information was provided by the Certified Fraud Examiners (CFEs) who investigated those cases. The fraud cases in our study came from 100 countries — providing a truly global view into the plague of occupational fraud.

* Participants in the survey estimated that they **lose 5% of their annual revenues** to fraud. Applied to the 2013 Gross World product it translates to **approximately \$3.7 trillion in fraud losses**.

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ACFE 2014 Report to the Nation Highlights

*The median loss caused by the occupational fraud cases in our study was \$145,000. Additionally, 22% of these cases caused losses of at least \$1 million. The median duration – the amount of time from when the fraud commenced until it was detected – for fraud cases reported was 18 months.

*Occupational fraud is more likely to be detected by a tip than by any other method. Employees accounted for nearly half of all tips that led to the discovery of fraud. Organizations with hotlines were much more likely to catch fraud by a tip which our data shows is the most effective way to detect fraud. These organizations also experienced frauds that were 41% less costly, and they detected frauds 50% more quickly.

*Corruption and billing schemes pose the greatest risks to organizations throughout the world. For all geographic regions, these two scheme types comprised more than 50% of the frauds reported to us.

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ACFE 2014 Report to the Nation Highlights

Position of Perpetrator – Median Loss

Employee:

\$ 75,000 in 2014 vs. \$60,000 in 2012 (trending back up since 2010)

Manager:

\$130,000 in 2012 vs. \$182,000 in 2012 (trending down since 2010)

Owner:

\$500,000 in 2014 vs. \$573,000 in 2012 (trending down since 2010)

Other: (new in 2012)

\$250,000 in 2014 vs. \$100,000 in 2012 (trending back up)

The trend of duration of fraud before detection is higher, the higher the position.

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ACFE 2014 Report to the Nation Highlights

In 92% of cases, the fraudster displayed one or more behavioral red flags, and in 64% of cases, the fraudster displayed two or more behavioral red flags.

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ACFE 2014 Report to the Nation Highlights

The top 5 red flags associated with fraudulent conduct.

- * Living beyond means (43.8% of cases)
- * Financial difficulties (33%)
- * Unusually close association with vendors or customers (21.8%)
- * Excessive control issues (21.1%)
- * "Wheeler-Dealer Attitude" (18.4%)

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ACFE 2014 Report to the Nation Highlights

Nearly half of victim organizations do not recover any losses that they suffer due to fraud. As of the time of our survey, 58.4% of victims had not recovered any of the perpetrator's takings; this finding is consistent with our previous research, which indicates that 40-60% of victim organizations do not recover any of their fraud-related losses.

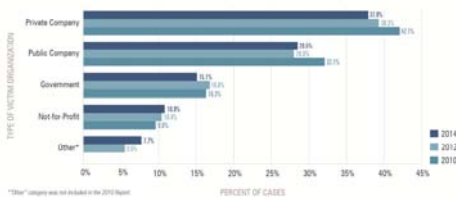
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*Victim Organizations

Organization Type of Victim — Frequency

Figure 17: Type of Victim Organization — Frequency



2014 Report to the Nations on Occupational Fraud and Abuse. Copyright 2014 by the Association of Certified Fraud Examiners, Inc.™



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- Top 5 - Primary Internal Control Weakness Observed by CFE**
- This is where you can make changes... changes that don't always cost a great deal!
- *Lack of Internal Controls (2014 - 32.2 %, 2013 -35.5%, 2012 - 37.8%)
 - *Lack of Management Review (2014 - 20%, 2013 -18.1%, 2012 -17.9%)
 - *Override of Existing Internal Controls (2014 - 32.2%, 2013 -35.5%, 2012 - 37.8%)
 - *Poor Tone at the Top (2014 - 32.2 %, 2013 -35.5%, 2012 - 37.8%)
 - *Lack of Competent Personnel Roles in Oversight Roles (2014 - 32.2 %, 2013 -35.5%, 2012 - 37.8%)
- Percentage Statistics per the – 2012 – 2014 Report to the Nations on Occupational Fraud and Abuse. Copyright 2014 by the Association of Certified Fraud Examiners, Inc.®
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- What is fraud?**
- The actual definition of fraud depends on who you speak with or research.
- ACFE Defines fraud in terms of types of fraud:
 (*Fraud basics: The Many Faces of Fraud® Fraud Examiners Manual, ACFE, 2000*)
- *Misrepresentation of material facts
 - *Concealment of material facts
 - *Bribery
 - *Conflicts of Interest
 - *Theft of money and property
 - *Breach of Fiduciary Duty
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What is fraud?

The actual definition of fraud depends on who you speak with or research.

AICPA defines fraud: ("Fraud basics: The Many Faces of Fraud" Fraud Examiners Manual, ACFE, 2000")

Auditing Standards AU316.05 "For purposes of this section, fraud is an intentional act that results in a material misstatement of the financial statements that are subject of an audit.

Two types of misstatements relevant to auditors:

- Misstatements from fraudulent financial reporting
- Misstatements arising from misappropriation of assets

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What is fraud?

The actual definition of fraud depends on who you speak with or research.

IIA defines fraud (www.theiia.org):

"any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage."

The IIA further clarifies fraud and misconduct by type of risk:

- financial reporting risk
- operational risk
- compliance risk
- misappropriation of assets

AND SO MANY MORE....

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What is fraud?

In the simplest of terms.... Five Elements of Fraud

1. A false representation about a material fact.
2. Made intentionally, knowingly, or recklessly.
3. It is believed.
4. It is acted upon or relied upon by the user/victim.
5. To the user/victim's detriment, resulting in some sort of loss from this reliance.

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The Fraud Triangle



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Pressure

The first leg of the fraud triangle represents pressure, or what Cressey called a perceived non-sharable financial need. This is what motivates the crime in the first place. The fraudster has some financial problem that he is unable to solve through legitimate means, so he begins to consider committing an illegal act such as stealing cash or falsifying a financial statement as a way to solve his problem. The financial problem can be personal (too deep in personal debt) or professional (the person's job or business is in jeopardy).

Examples of pressures that commonly lead to fraud include:

- Desire for status symbols such as a larger house, luxury car, etc.
- Inability to pay one's bills
- Drug or gambling addiction
- Need to meet earnings to sustain investor confidence
- Need to meet productivity targets at work
- Non-shareable problems and the importance of status

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Opportunity

The second leg of the fraud triangle is opportunity, sometimes referred to as perceived opportunity, which defines the method by which the crime can be committed. The person must see some way they can use (abuse) their position of trust to solve their financial problem with a low perceived risk of getting caught.

It is also critical that the fraudster be able to solve their problem in secret. Remember that fraudsters are motivated by concerns over status. If a perpetrator is caught embezzling or falsifying financial information, this will hurt their status at least as much as the underlying problem they were trying to conceal. So the fraudster not only has to be able to steal funds, they have to be able to do it in such a way that they will likely not be caught and the crime itself will not be detected.

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Rationalization

The third leg of the fraud triangle is rationalization. As we stated already, the vast majority of fraudsters are first-time offenders with no criminal past. They do not view themselves as criminals. They see themselves as ordinary, honest people who are caught in a bad set of circumstances.

Because the fraudster does not see themselves as a criminal, they must justify the crime to themselves in a way that makes it an acceptable or justifiable act. This is known as rationalization. Common rationalizations include the following:

- * I was only borrowing the money and I had full intentions of paying it back.
- * My employer is dishonest to others and deserves what they got.
- * I deserve the money because I am underpaid.
- * I had no choice but to take the money to pay my mortgage and take care of my family. I did not have a choice and it will not be detected.

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Common frauds in your industry

- * Abuse of Power
- * Conflict of Interest
- * Bribery/Corruption
- * Asset Misappropriation
- * Construction Fraud
- * Bid Rigging
- * Expense Fraud
- * Employee fraud
 - Modifying documents for oneself or a family member or friend to receive a tax benefit
- * Repair and Maintenance fraud
- * Identity Theft

What others are you aware of?

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Common types of fraud

- * Fraud involving the elderly
 - stealing their personal property
 - forging documents or convincing them to sign documents, such as quit claim deeds, beneficiary selections, Medicaid/Medicare payments
 - unnecessary repairs and maintenance on property or overcharging
- * Investment Fraud - can you say Madoff; Enron;
- * Consumer Fraud - work at home scams; A/C Repair scams;
- * Mortgage Loan/Foreclosure Fraud - by realtors; lenders; buyers; sellers; attorneys; appraisers
- * Diploma Fraud
- * Tax Fraud
- * Medical Fraud - Insurance/Medicare/Medicaid

AND SO MANY MORE....

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Examples of possible anomalies that should make you go hmmm....

Behavioral and Management Style:

- * Weak Tone at the top – *Do as I say, not as I do.*
- * Pressure by Board or Top Management on line managers to meet the bottom line or cut corners.
- * Relationships among Board members, Management, Vendors which are *just too close for comfort; limited or no disclosure of potential conflicts of interest.*
- * Inconsistent or limited enforcement of policies and procedures and/or lack of enforcement when policies and procedures are not followed.

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Examples of possible anomalies that should make you go hmmm....

Operational/Management Style:

- * Management has and uses the ability to override controls with limited or no checks and balances.
- * Employee incidents are not documented and followed up on properly. *Employees are highly encouraged not to report Workers' Compensation incidents if they know what is good for them.*
- * Cost savings on projects are tolerated by cutting corners on materials event to the point of using sub-standard and inferior quality products. *Employees are encouraged not to challenge decisions of management.*

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Examples of possible anomalies that should make you go hmmm....

Financial Statement/Accounting Anomalies:

- * Cash: Continual outstanding checks in bank reconciliations; inconsistent reconciliations; no reconciliations.
- * A/R: increase in past due receivables.
- * Inventory: Large amount of obsolete items; limited or no inventory records; limited documentation of a physical inventory or no physical inventory at all.
- * Journal Entries: made without supporting documentation; several unusual made at fiscal year end.

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Potential Contributing Factors

- * Reduction in staff size due to the downturn in the economy.
- * Statistics show that citizens and customers are demanding that more should be done for less.
- * Inability to fill key positions due to lack of proper funding to maintain market salaries.
- * Increasing limitations put on segregation of duties due to limited resources to fund the mission of the organization.
- * Even more challenging is the need to educate those volunteering their time that come from a variety of industries, backgrounds and educational insight.

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What are Internal Controls?

Not only must the **Tone at the Top** be about accountability, but it must be integrated in the fabric of the organization in order to maintain a strong environment for properly managing these funds

- * Protecting its resources against waste, fraud, and inefficiency
- * Assuring accuracy and reliability of accounting data
- * Ensuring compliance with policies of the organization
- * Evaluating the level of performance in all organizational units

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Examples of Internal Controls?

- * Separation of duties
- * Authorization and approval
- * Review of operating performance
- * Physical control
- * Reconciliation
- * Training and guidance and monitoring
- * **Can you name other examples?**

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Key Elements for Strong Internal Controls

Control activities...

Processes that enable policies and procedures to be implemented in order to maintain control of or mitigate risk factors.

Policies and procedures...

Written steps communicated to employees and updated on a regular basis which establish the framework for internal controls.

Employee Roles...

Defining the employee's role and communicating it. Making them part of the process.

How well do you believe your Organization does in these areas?

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Auditing vs. Fraud Examination

Issue	Auditing	Fraud examination
Timing	Recurring Audits are conducted on a regular, recurring basis.	Nonrecurring Fraud examinations are nonrecurring. They are conducted only with sufficient predication.
Scope	General The scope of the audit is an examination of financial data.	Specific The fraud examination is conducted to resolve specific allegations.
Objective	Opinion An audit is generally conducted for the purpose of expressing an opinion on the financial statements or related information.	State Facts The fraud examination's goal is to determine whether fraud has occurred or is occurring and to determine who is responsible.
Relationship	Nonadversarial The audit process is nonadversarial in nature.	Adversarial Fraud examinations, because they involve efforts to affix blame, are adversarial in nature.
Methodology	Audit techniques Audits are conducted by examining financial data and obtaining corroborating evidence.	Fraud examination techniques Fraud examinations are conducted by (1) document examination; (2) review of outside data such as public records; and (3) interviews.
Standard	Professional skepticism Auditors are required to approach audits with professional skepticism.	Proof Fraud examiners approach the resolution of a fraud by attempting to establish sufficient proof to support or refute a fraud allegation.

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What is Risk?

*Anything that could negatively impact your organization's ability to meet its operational objectives.

*Any situations or conditions that could diminish the safety of citizens, employees, customers, or assets of an organization.

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5 Types of Risk?

- * **Strategic** - risk that would prevent a department from accomplishing it's objectives.
- * **Financial** - risk that which may result in a negative financial impact to the Organization
- * **Regulatory (Compliance)** - Risk that could expose the Company to fines and penalties from a regulatory agency due to non-compliance with laws and regulations.
- * **Reputational** - risk that could expose the Company to negative publicity.
- * **Operational** - risk that could prevent a department from operating in the most effective and efficient manner.

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Monitoring Is Key

The controls put in place must be periodically reviewed and assessed to ensure that they are effective and adequate.

This is done through ongoing monitoring and separate evaluations of internal controls.

- * **Who does this in your area?**
- * **When were your policies and procedures last updated?**
- * **Is a risk analysis performed in developing your monitoring plan? Are the proper people involved?**

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What You Can Do!

- * **Verify** that policies and procedures are updated and are followed.
- * **Interview** all staff involved, listen, document what is being done, not just what should be done.
- * **Ask questions** – *what you don't know can hurt you*
Ask questions more than one way!
- * **Ensure** approval signatures are visible (legible) on all required documentation.
- * **Encourage and obtain training** related to fraud in your industry.

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What You Can Do!

- * Develop a **written** policy and procedures manual for handling fraud claims.
- * *Create and implement a Fraud Hotline, or contract with a third party administrator for a Fraud Hotline service.*
- * **Educate** yourself. Stay in tune with recent events. See suggested websites and links at the end of the presentation.
- * **Communicate** and collaborate with your State and Local Inspector Generals office.
- * Contact your local ACFE Chapter and get to know the fraud examiners in your area.

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Just a few resources for you:

- * ACFE – www.acfe.com
- * Tampa Chapter of the ACFE: www.tampabayacfe.com
- * Florida Inspector General: - www.floridaoig.com
- * Credit Bureaus for Identity Theft:
 - www.transunion.com
 - www.equifax.com
 - www.experian.com
- * Fraudulent tax return – IRS hotline via Federal Trade Commission
FTC – 877-438-4338. To mark your account for questioned activity you will need to fill out a form 14039, see www.irs.gov/forms. Companies committing potential fraud, fill out a form 3949-A.
- * Elderly fraud – FBI assistance – www.fbi.gov/scams-safety/seniors

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Now what... you have discovered fraud... so you think...

- DO:**
- * Document what was found
 - * Hold a meeting with the team responsible for fraud monitoring - for example an audit committee
 - * Get key experts involved - legal, human resources, a certified fraud examiner, an information technology specialist.
- DO NOT:**
- * Accuse the person or make a statement that he/she has committed fraud.
 - * Boot up/shut down the computer, always unplug it, and secure it. Wait for the forensic experts.

Note: these are just a few of the initial steps


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It's all about putting the pieces of the puzzle together...
 Asking the right questions....
 Follow-up and monitoring....

Remember, if it is too good to be true... it usually is....

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Summary and Comments

QUESTIONS.....

- *Where do you feel the weakest knowledge base is?
- *How do you cope with budget limits and much needed staff training?

Your participation means everything

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MAY YOUR JOURNEY THROUGH THIS PROFESSION BE FRUITFUL, FULFILLING AND MOST OF ALL FUN!

Feel free to contact me with any questions you have:
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