

OCCUPATIONAL FRAUD AND INTERNAL CONTROLS:

Strategies for Managing Your Assets

LEARNING OBJECTIVE

Understand:

1. The prevalence of occupational fraud
2. Internal controls to mitigate risk of fraud
3. Information technology considerations



AGENDA

- Types of Occupational Fraud
- Association of Certified Fraud Examiners (ACFE) – 2016 Report to the Nations
- Fraud Triangle
- My Fraud Case
- Internal Controls to Address Fraud Risks
- Information and Communication
- Monitoring
- Resources



NEWSWORTHY

November 2014 – sentenced to 4 years

PORTLAND, Maine – Former longtime charity president Russell “Rusty” Brace pleaded guilty Friday morning in federal court to three felony counts related to the embezzlement of \$4.6 million.

December 11, 2013

A former employee of Rockland Savings Bank who used her position to misappropriate more than \$500,000 in loans was sentenced Wednesday in federal court in Portland to serve 33 months in prison to repay the money.

April 5, 2012 – 24 year employee

BRUNSWICK, Maine – A Topsham woman serving 33 month in federal prison for embezzling more than \$500,000 from Atlantic Regional Federal Credit Union has been ordered to pay restitution of \$468,317.

August 1, 2016

The former bank manager of the Portland Police Federal Credit Union who embezzled more than \$530,000 was sentenced Monday in U.S. District Court in Portland to serve a year and a day in federal prison.

TYPES OF FRAUD

Occupational Fraud

- Asset misappropriation
- Corruption
- Financial statement fraud



ACFE REPORT TO THE NATION

SURVEY SAYS ...

Median loss for
all cases was
\$150,000

Asset
misappropriation
occurred in
83%
of cases

Median duration
of the frauds was
18 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

ACFE REPORT TO THE NATION

SURVEY SAYS ...

Most common reporting methods in cases detected by tip with formal fraud reporting mechanisms:

39.5%

Telephone
hotlines

34.1%

Email

23.5%

Web-based or
online form

SMALL ORGANIZATIONS

- Checking tampering, skimming, payroll, and cash larceny schemes are twice as likely
- Significantly lower implementation rate of anti-fraud controls than large organizations

ACFE REPORT TO THE NATION

SURVEY SAYS ...

The presence of ANTI-FRAUD CONTROLS was correlated with lower fraud losses and more rapid detection.

More frauds occurred in the ACCOUNTING DEPARTMENT than any other business unit.

Most occupational fraudsters are FIRST-TIME OFFENDERS.

Victim organizations decided not to refer their fraud cases to law enforcement due to FEAR OF BAD PUBLICITY in 41% of cases.

ACFE REPORT TO THE NATION

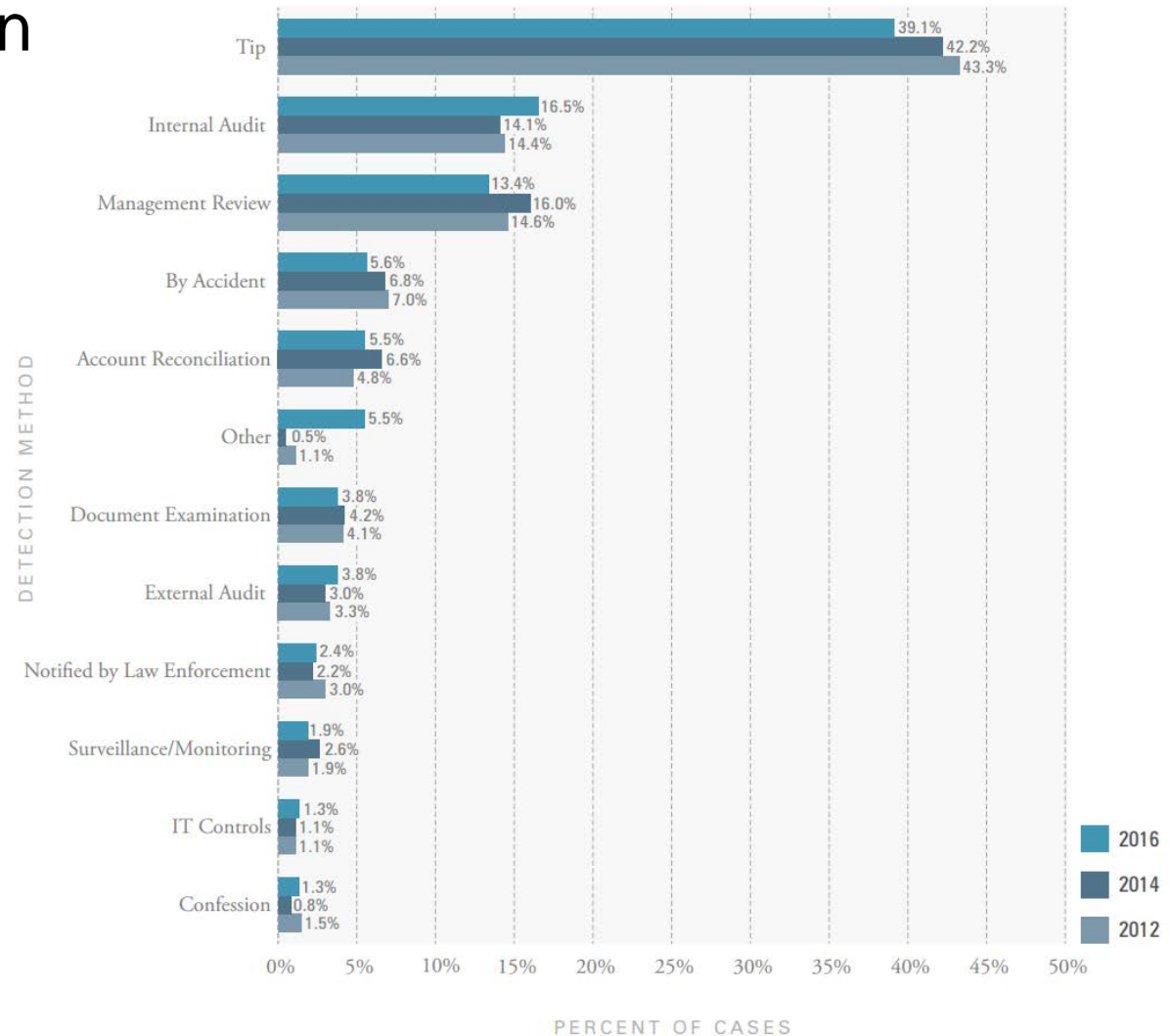
VICTIM ORGANIZATIONS

Industry	Number of Cases	Percent of Cases	Median Loss
Mining	20	0.9%	\$500,000
Wholesale Trade	36	1.6%	\$450,000
Services (Professional)	60	2.7%	\$310,000
Agriculture, Forestry, Fishing, and Hunting	44	2.0%	\$300,000
Oil and Gas	74	3.4%	\$275,000
Construction	86	3.9%	\$259,000
Technology	74	3.4%	\$235,000
Communications and Publishing	16	0.7%	\$225,000
Real Estate	41	1.9%	\$200,000
Manufacturing	192	8.8%	\$194,000
Telecommunications	62	2.8%	\$194,000
Banking and Financial Services	368	16.8%	\$192,000
Transportation and Warehousing	68	3.1%	\$143,000
Government and Public Administration	229	10.5%	\$133,000
Health Care	144	6.6%	\$120,000
Insurance	85	3.9%	\$107,000
Utilities	40	1.8%	\$102,000
Other	153	7.0%	\$100,000
Services (Other)	70	3.2%	\$100,000
Retail	104	4.8%	\$85,000
Religious, Charitable, or Social Services	52	2.4%	\$82,000
Arts, Entertainment, and Recreation	37	1.7%	\$75,000
Education	132	6.0%	\$62,000

ACFE REPORT TO THE NATION

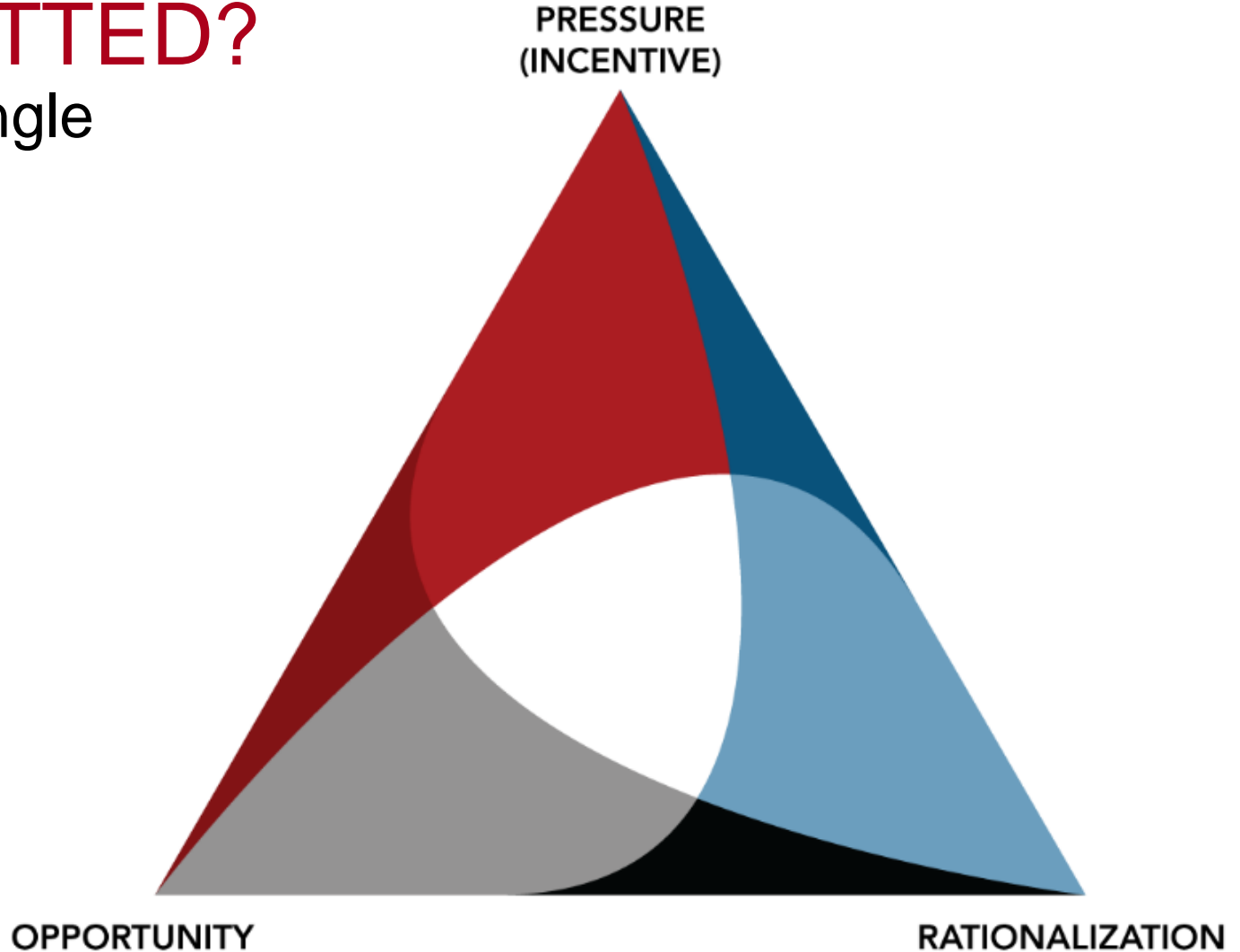
DETECTION OF FRAUD SCHEMES

Fraud Detection Methods



WHY IS FRAUD COMMITTED?

Fraud Triangle



MY FRAUD CASE

- Manufacturing entity
- Accounting manager
- 3 year duration
- Cash larceny and personal use of business credit card
- Just shy of \$500,000



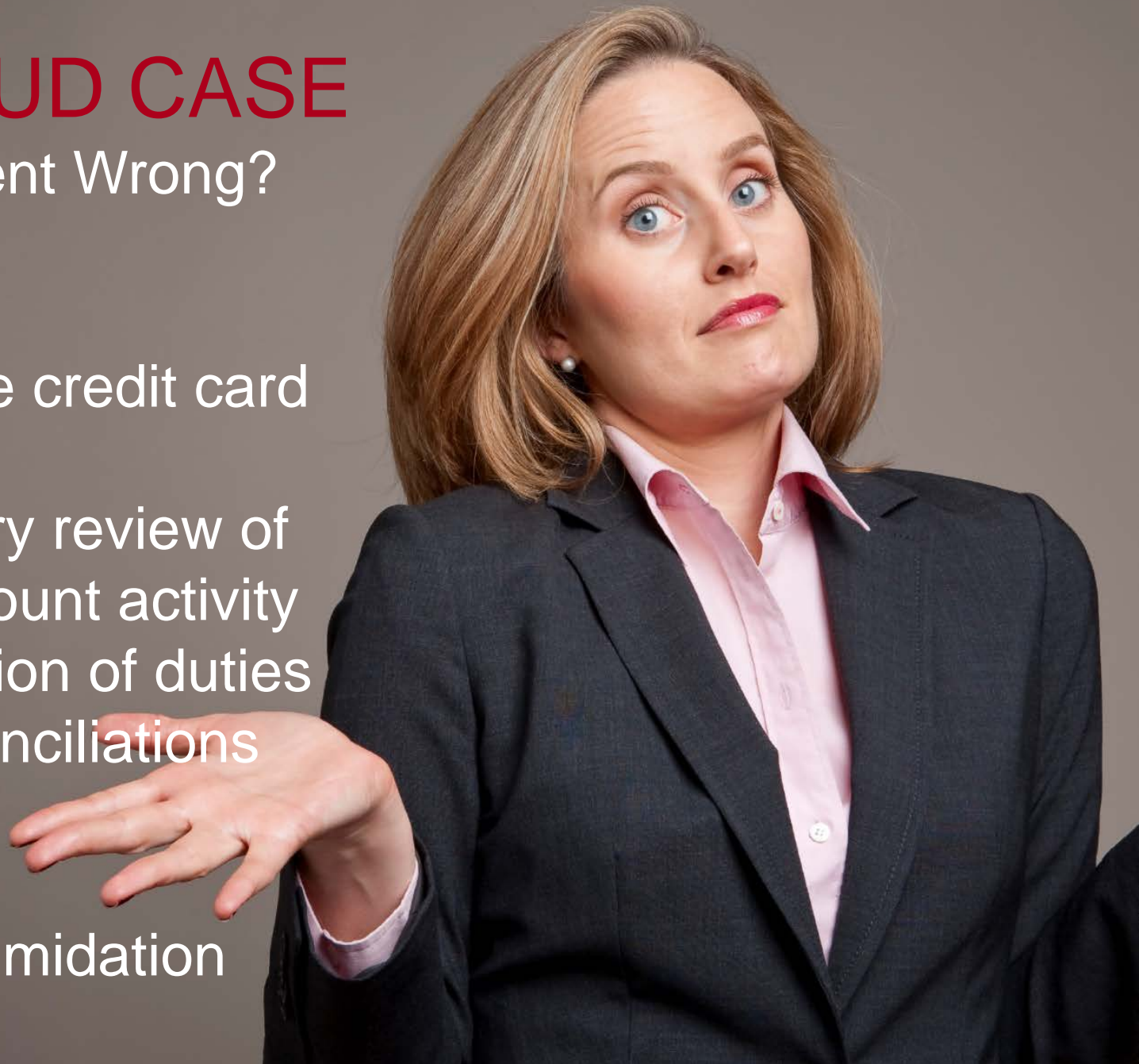
MY FRAUD CASE

So What Went Wrong?

Lack of:

- Corporate credit card oversight
- Secondary review of cash account activity
- Segregation of duties over reconciliations

Manager intimidation



DEVELOP INTERNAL CONTROLS TO ADDRESS FRAUD RISKS



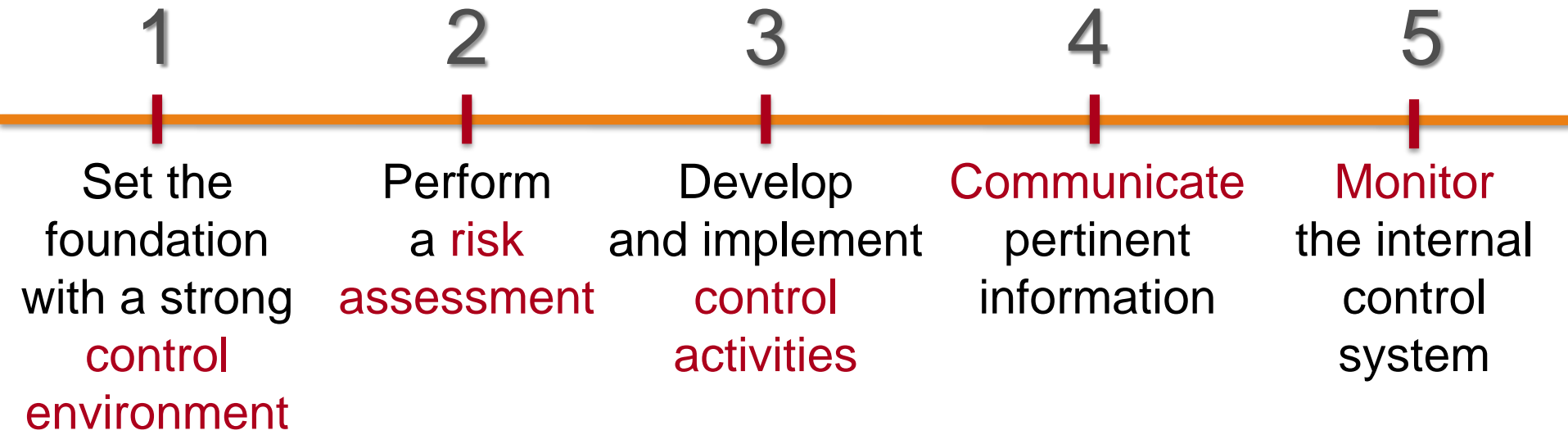
WHAT ARE INTERNAL CONTROLS?

A process for assuring achievement of an organization's objectives for:

- Operational effectiveness and efficiency
- Reliable financial reporting
- Compliance with laws, regulations, and policies



THE PROCESS



CONTROL ENVIRONMENT

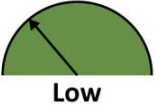


Competency
Ethics
BOD Attention Responsibility
Authority Management's Philosophy
BOD Direction
Tone At The Top
Human Resources
Integrity Values
Staff Development
Management's Operating Style





- Brainstorm – no wrong answers
- Participation from all areas of your organization
- Rank the risks
- Revisit annually

RISK RANKING

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: 2	Medium Impact: 2	Medium Impact: 2	Medium overall risk: 6 - 8
 High	High Likelihood: 3	High Impact: 3	High Impact: 3	High Impact: 3	High overall risk: 9 - 12

CONTROL ACTIVITIES



Authorization
Security
Locks Verification Review
Approval
Segregation of Duties
Reconciliation

SOME KEY INTERNAL CONTROLS

CASH

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

ACCOUNTS PAYABLE

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

ACCOUNTS RECEIVABLE

- 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

SOME KEY INTERNAL 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

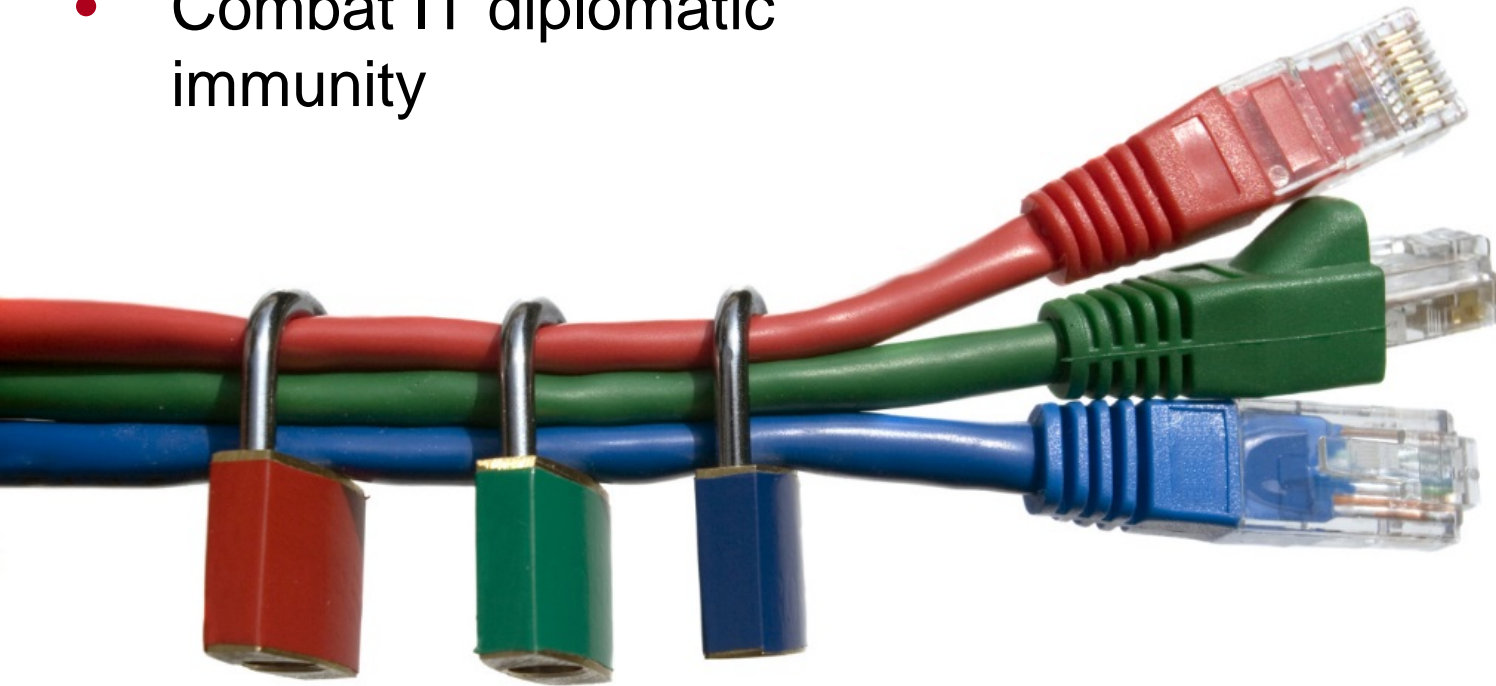
BUDGET VS. ACTUAL

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

SOME KEY INTERNAL CONTROLS

IT Security

- Segregation of user access rights
- System logging
- Combat IT diplomatic immunity
- Encryption
- Mobile device management



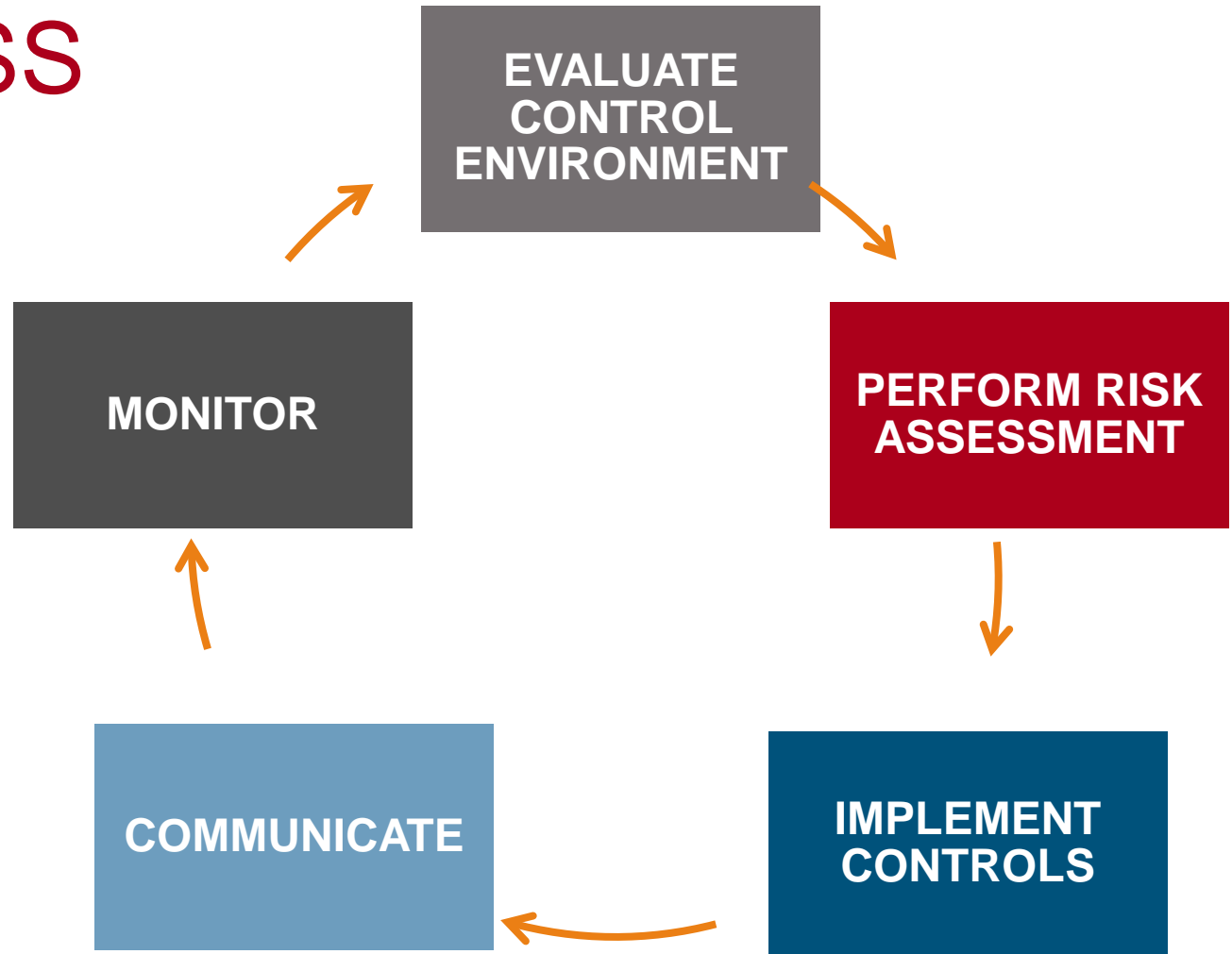
INFORMATION AND COMMUNICATION



MONITORING



AN ONGOING PROCESS



RESOURCE

ACFE 2016 Report to the Nations

<http://www.acfe.com/rtn2016.aspx>

BerryDunn Webinar:
Emerging Security Threats

<http://bit.ly/ITWebinar16>



QUESTIONS?

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