



expertise
GAINED

**FRAUD: WHAT'S NEW
AND WHAT TO DO
ABOUT IT**



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- Types of Internal Fraud
- Who are these people?
- Association of Certified Fraud Examiners (ACFE) – 2018 Report to the Nations
- Fraud Triangle
- Internal Controls to Address Fraud Risks
- Information and Communication
- Monitoring
- Story Time!
- Resources



INTERNAL FRAUD

- Corruption
- Financial statement fraud
- Asset misappropriation



WHO ARE THESE PEOPLE?

SURVEY SAYS ...

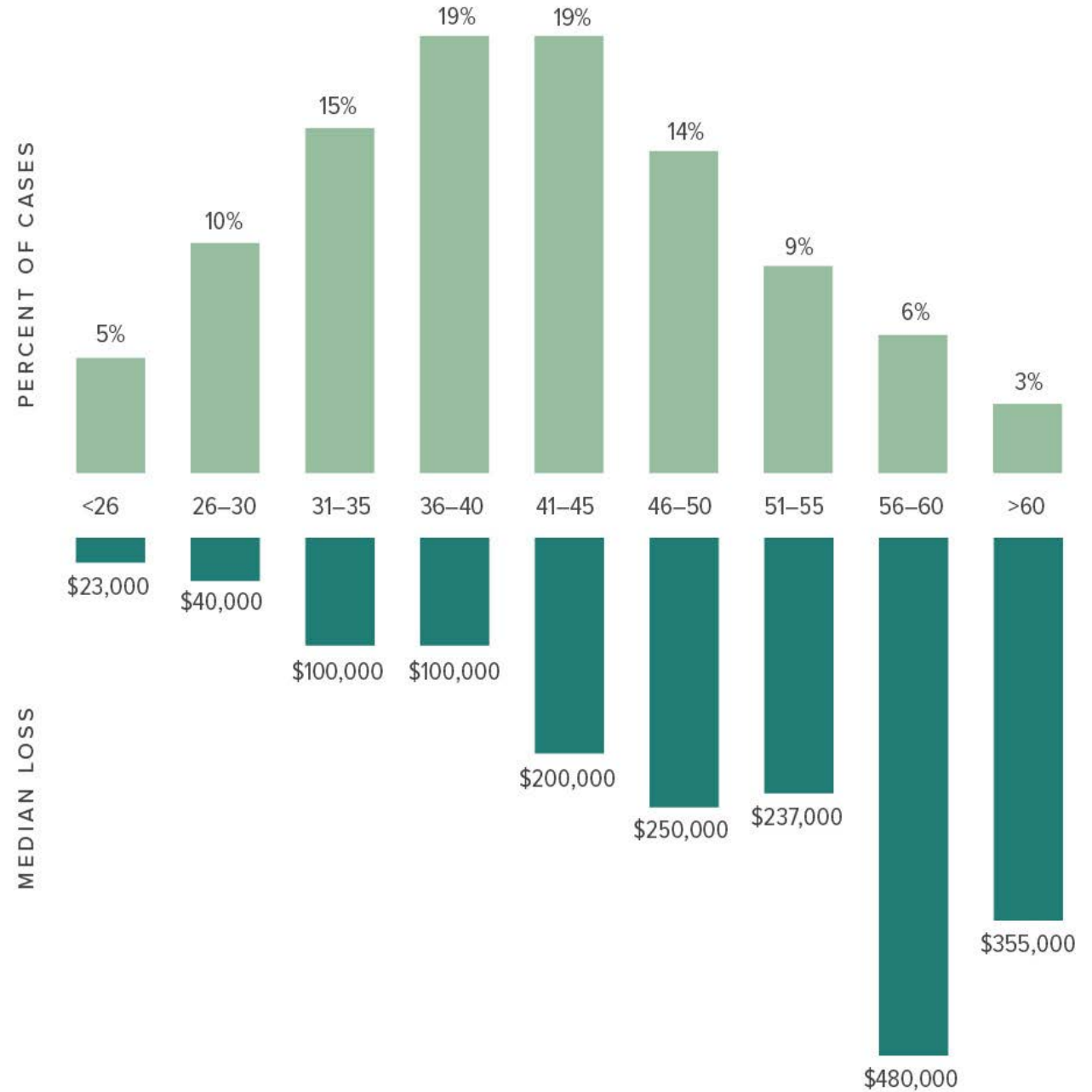
Fraudsters were generally **Male**

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

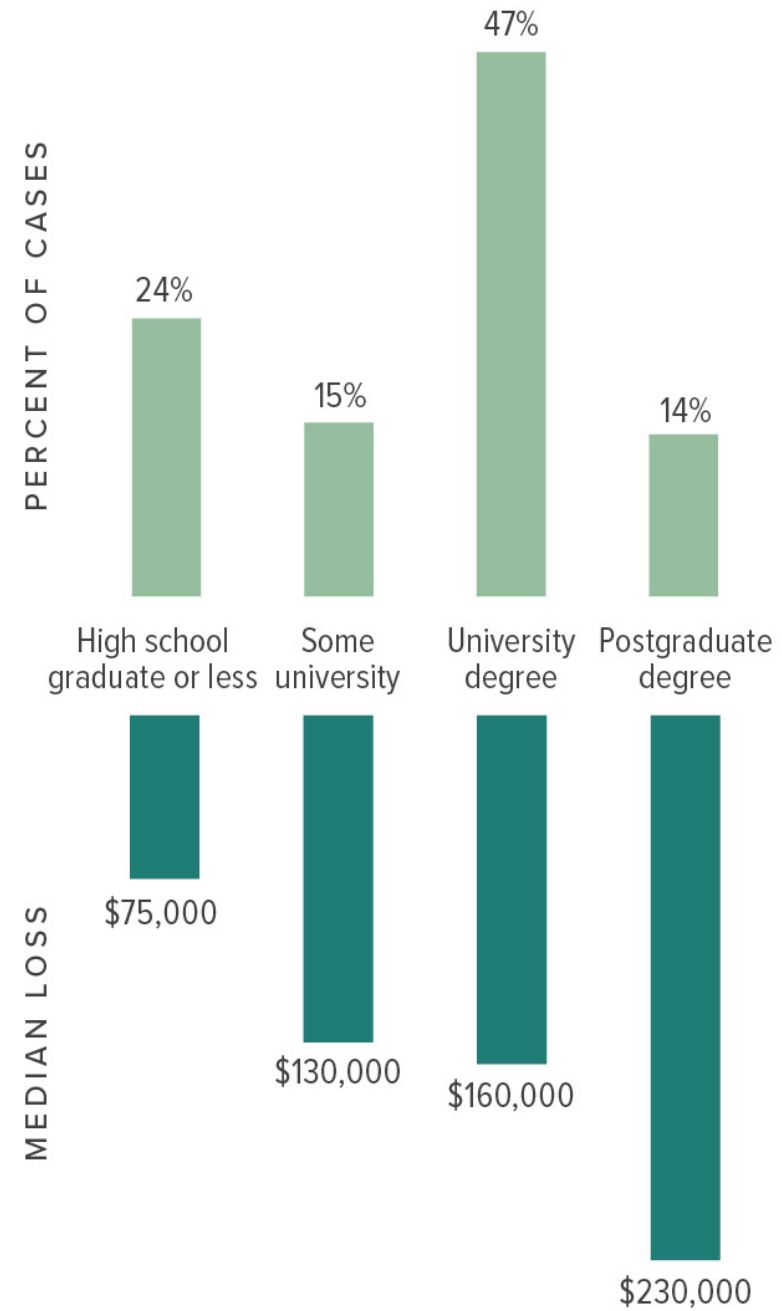
50% worked at the organization
Less than 5 years

- 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.

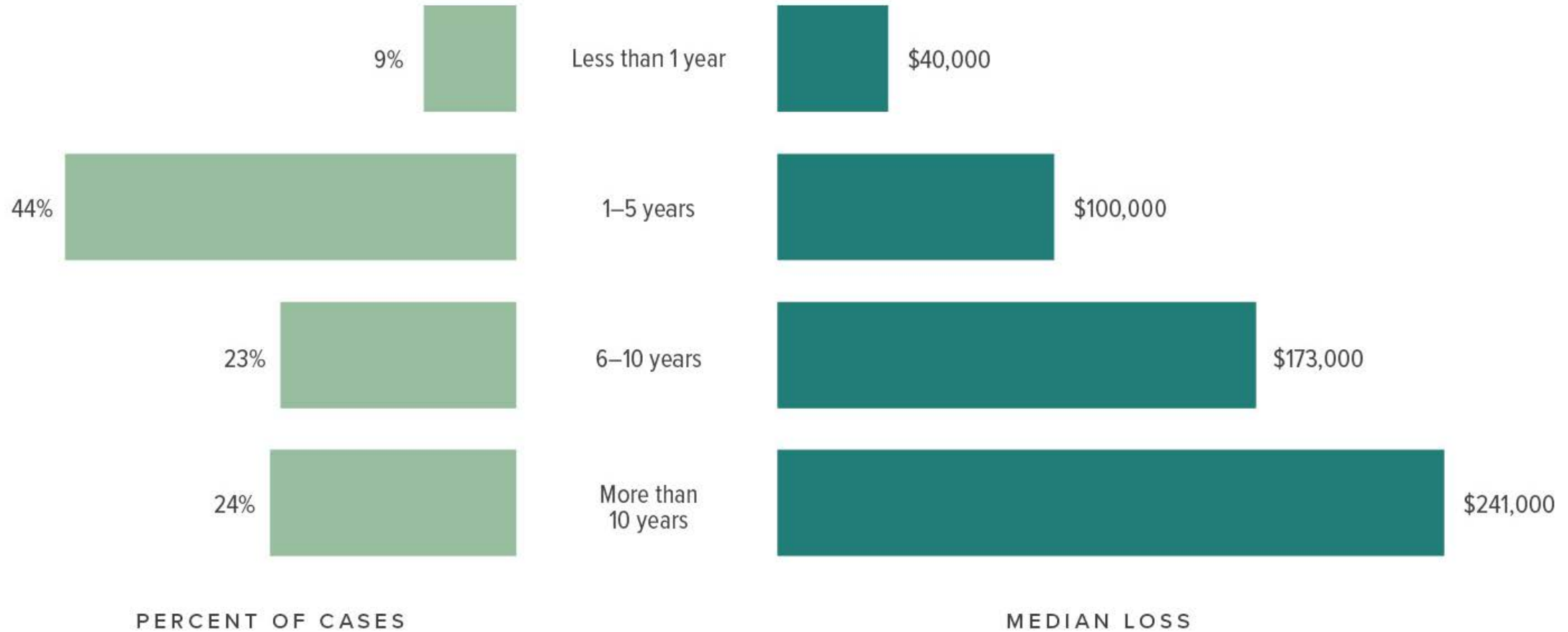
How does the perpetrator's age relate to occupational fraud?



How does the perpetrator's education level relate to occupational fraud?



How does the perpetrator's tenure relate to occupational fraud?



Do perpetrators tend to have prior fraud convictions?



- Never charged or convicted (89%)
- Charged but not convicted (6%)
- Had prior convictions (4%)
- Other (1%)

SURVEY SAYS ...

Median loss for all cases was
\$114,000

Asset misappropriation occurred in
89% of cases

Median duration of the frauds was
16 months

- Asset misappropriation by far the most common form of 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

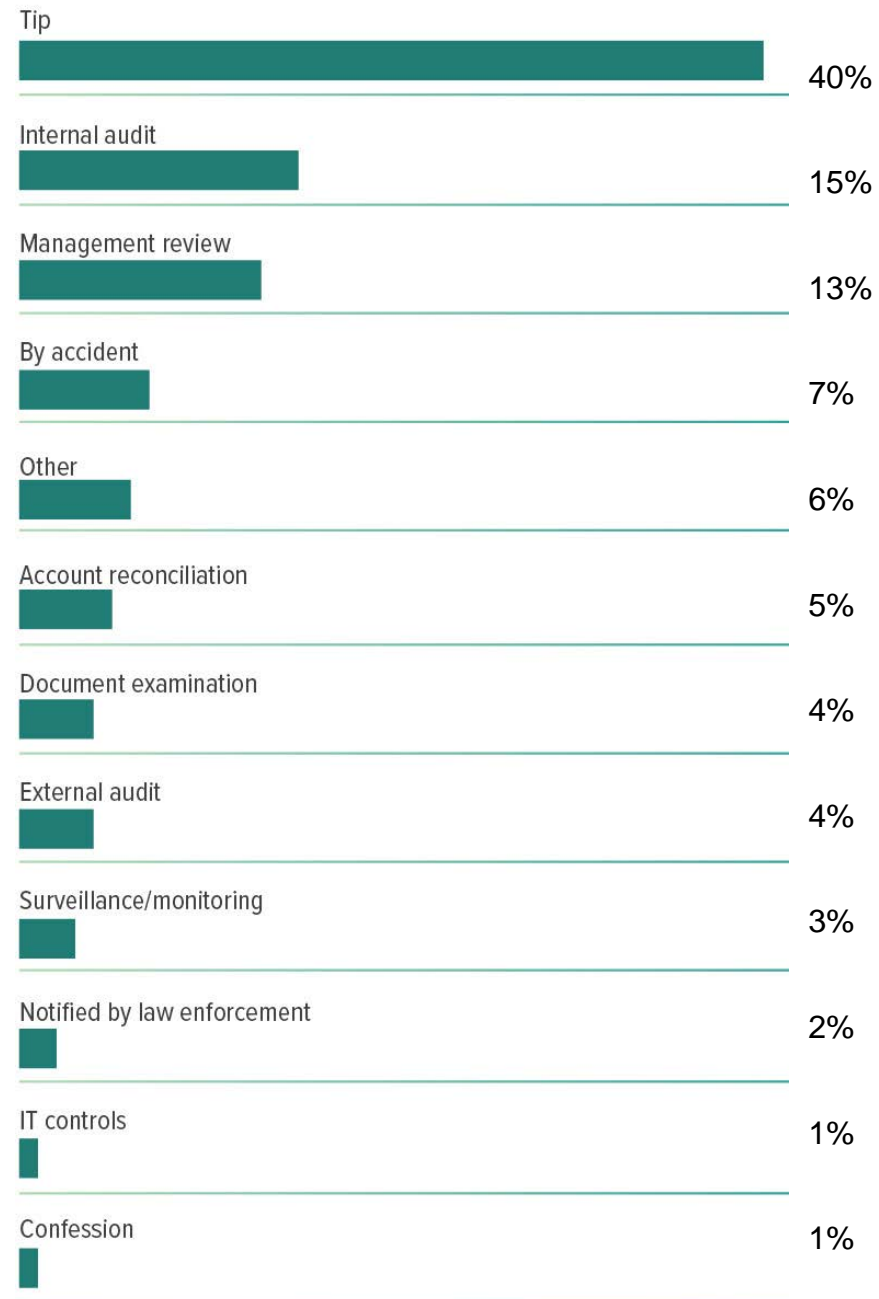
SMALL ORGANIZATIONS

- Checking tampering, skimming, payroll, and cash larceny schemes are twice as likely
- Significantly lower implementation rate of anti-fraud controls than large organizations
- Fraud losses were 50% smaller at organizations with hotlines than those without

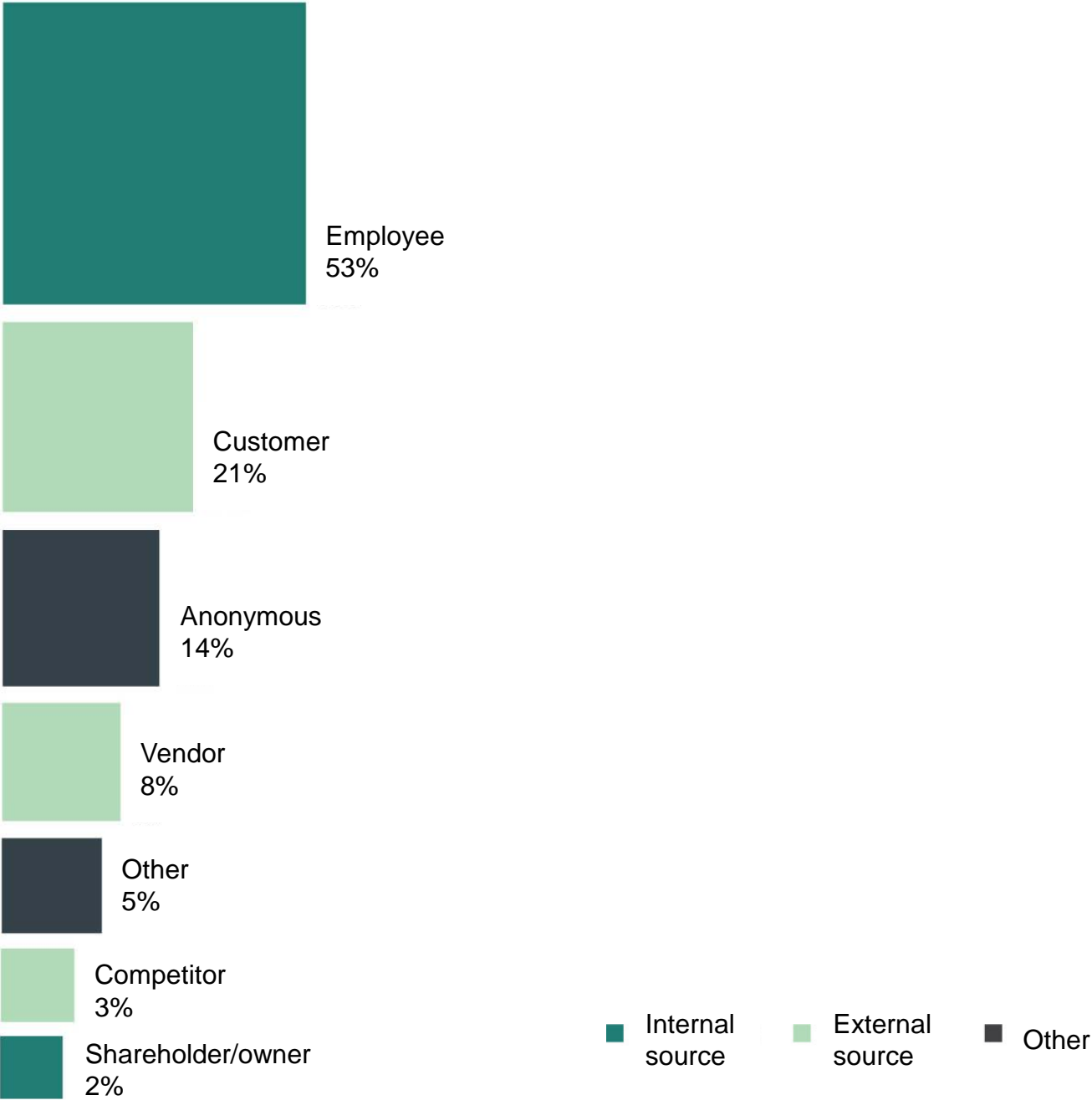
DETECTION OF FRAUD SCHEMES

Fraud Detection Methods

How is occupational fraud initially detected?



Who reports occupational fraud?



SURVEY SAYS ...

1

**ANTI-FRAUD
CONTROLS**

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

2

**ACCOUNTING
DEPARTMENT**

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

3

**FIRST-TIME
OFFENDERS**

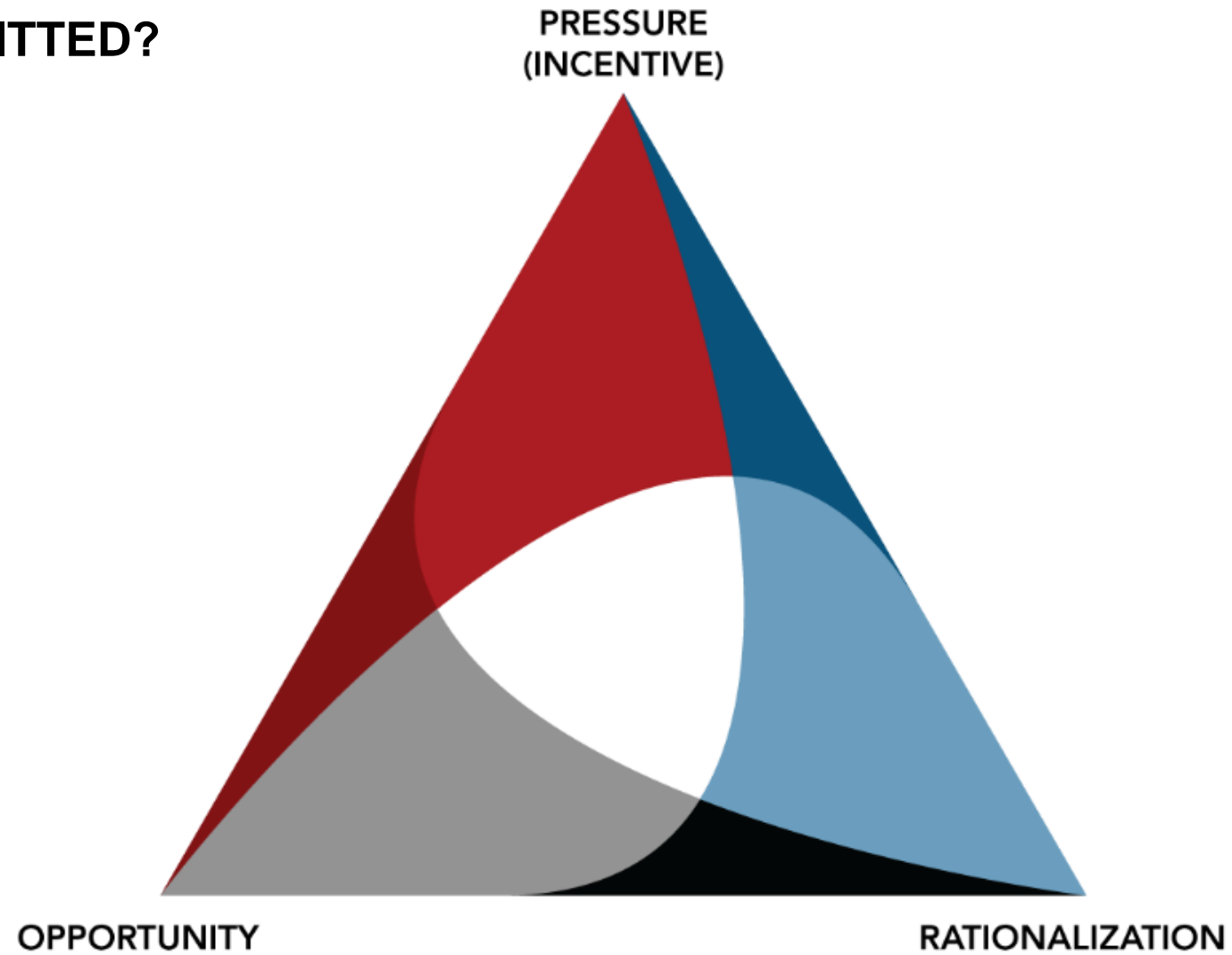
Most occupational fraudsters are **FIRST-TIME OFFENDERS**.

4

**FEAR OF BAD
PUBLICITY**

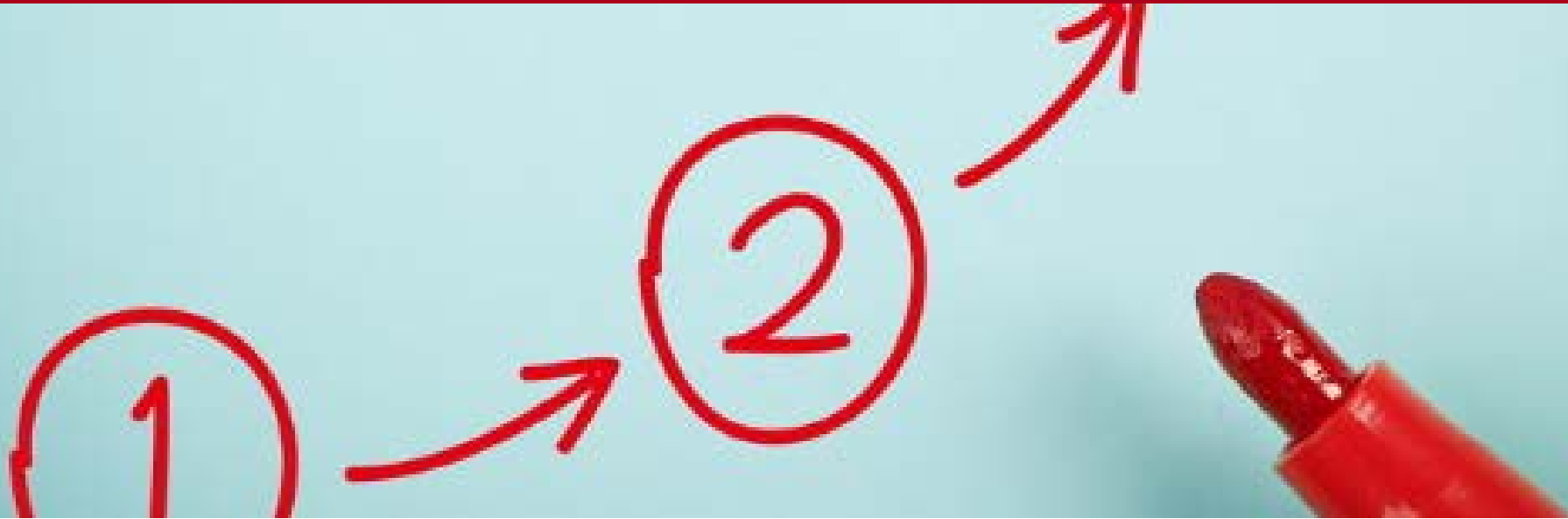
Victim organizations decided not to refer their fraud cases to law enforcement due to **FEAR OF BAD PUBLICITY** in 38% of cases.

WHY IS FRAUD COMMITTED?





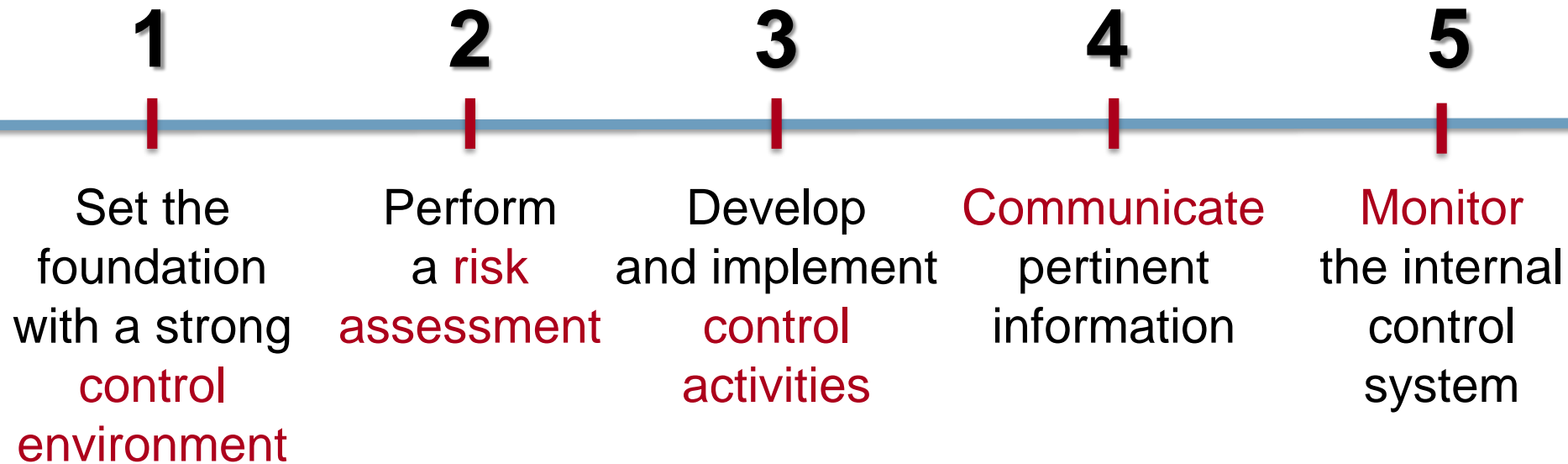
DEVELOP INTERNAL CONTROLS TO ADDRESS FRAUD RISKS




WHAT ARE INTERNAL CONTROLS?

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

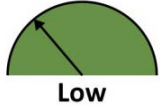


- Operational effectiveness and efficiency
- Reliable financial reporting
- Compliance with laws, regulations, and policies



- 
- 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



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

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



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



1 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 reconciliation
- Review general ledger posting detail for AR



PAYROLL

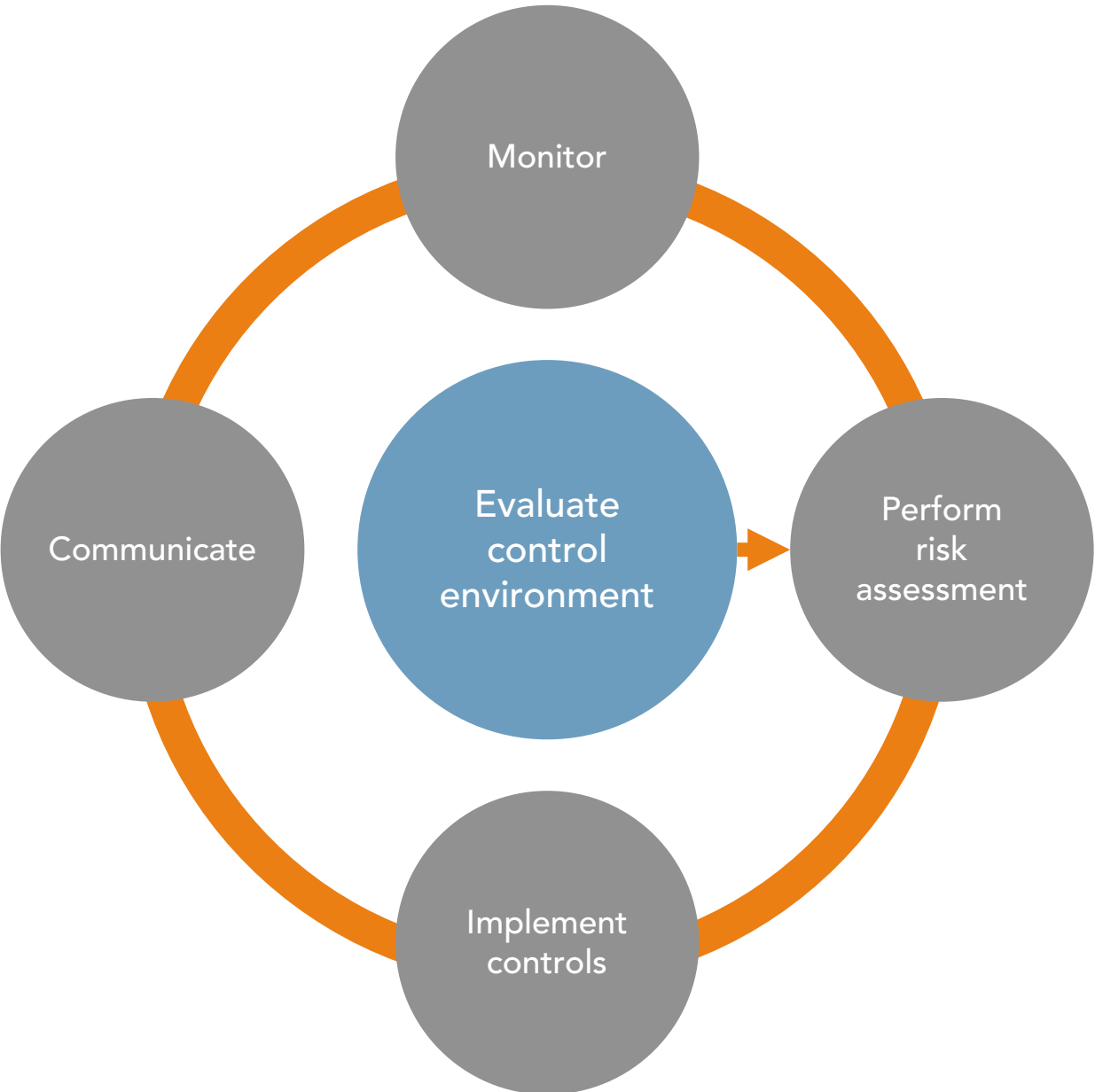
- Segregate duties between payroll setup and approval
- Non-HR employee within senior management should review and sign off on payroll change reports
- Payroll vendor reports should be received directly from someone outside the payroll function
- Payroll should be reconciled to the general ledger with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



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

Former Westbrook employee accused of embezzling \$118,000

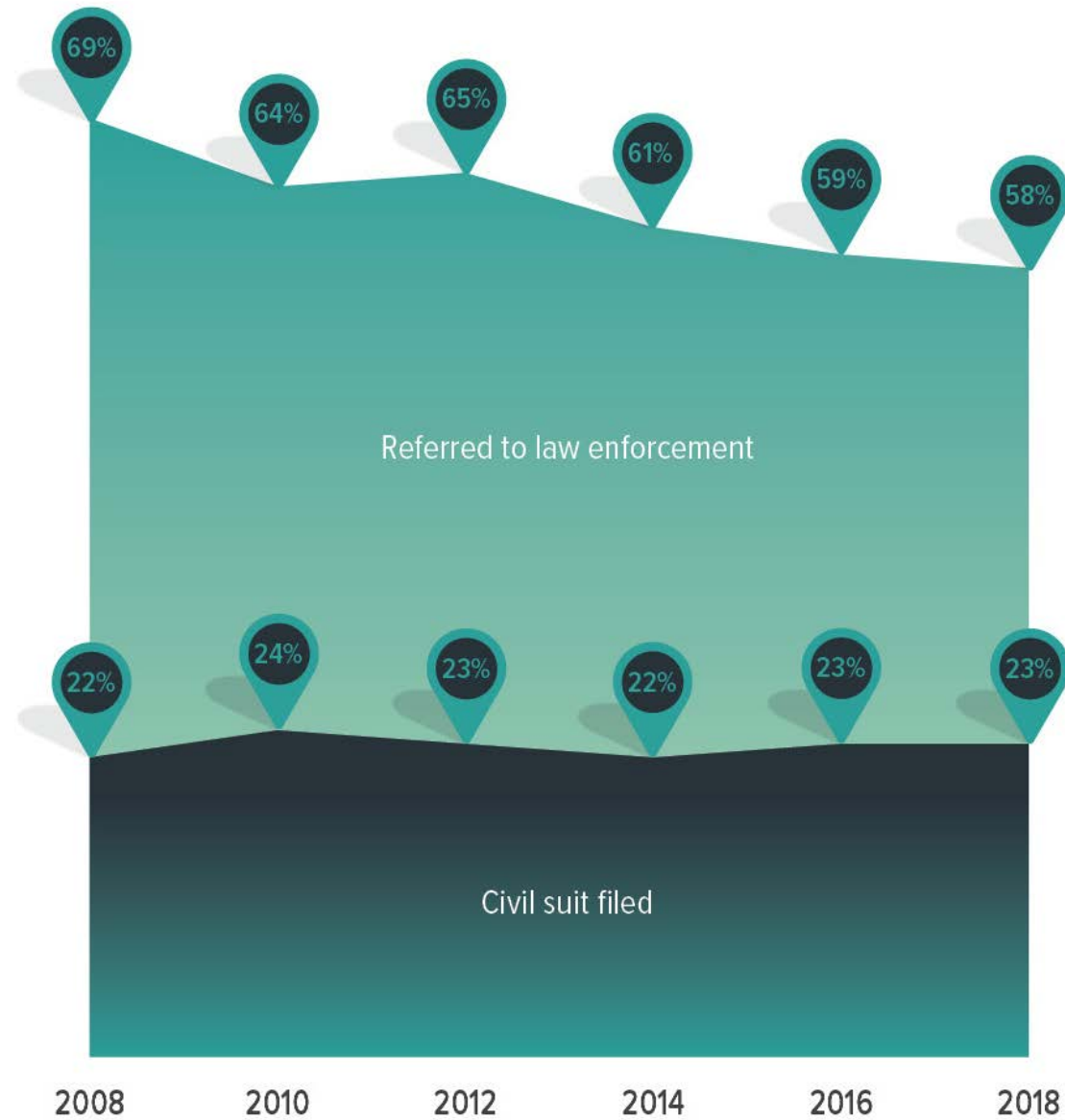
Piermont Woman Accused of Embezzling From Employer

Our View: Massive embezzlement from small Maine town should be wake-up call

Bridgewater Corners woman sentenced for embezzlement

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

How often is litigation pursued against occupational fraud perpetrators?





RESOURCE

ACFE 2018 Report to the Nations

<http://www.acfe.com/report-to-the-nations/2018/>



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