



MMAAA Annual Meeting

Conducting an Investigative Audit

June 13, 2017

Presented by:

John J. Sullivan, CFE

Melanson Heath

Association of Certified Fraud Examiners 2016 Global Fraud Study



Figure 1. Statistics (ACFE, 2016).

Association of Certified Fraud Examiners 2016 Global Fraud Study

39.1% of cases were detected through tips by employees.

Most commonly victimized industries:

- Banking and financial services
- Government and public administration
- Manufacturing

Presence of anti-fraud controls was correlated with both lower fraud losses and quicker detection.

Categories of Fraud

- Corruption
 - 35.4% of cases
 - \$200,000 median loss
 - Financial Statement Fraud
 - 9.6% of cases
 - \$975,000 median loss
 - Asset Misappropriation
 - 83.5% of cases
 - \$125,000 median loss
- (ACFE, 2016)

Corruption

Any scheme in which an employee misuses his or her influence in a business transaction to obtain an unauthorized benefit contrary to that person's duty to his or her employer.

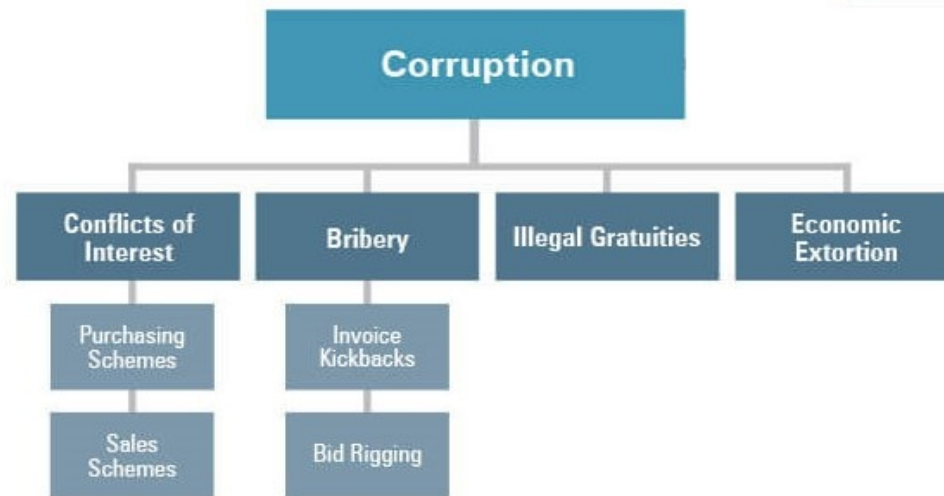


Figure 2. Corruption (ACFE, 2016).

Financial Statement Fraud

Falsification of an organization's financial statements to make the organization appear more favorable than actuality.



Figure 3. FS Fraud (ACFE, 2016).

Recording Expenditures/Liabilities in the Wrong Period

- No department may incur a liability in excess of their voted appropriation
- Any Town having unpaid bills of previous years which are unenforceable due to insufficient appropriation must seek additional appropriations

Asset Misappropriation

Any scheme involving the theft or misuse of an organization's assets.

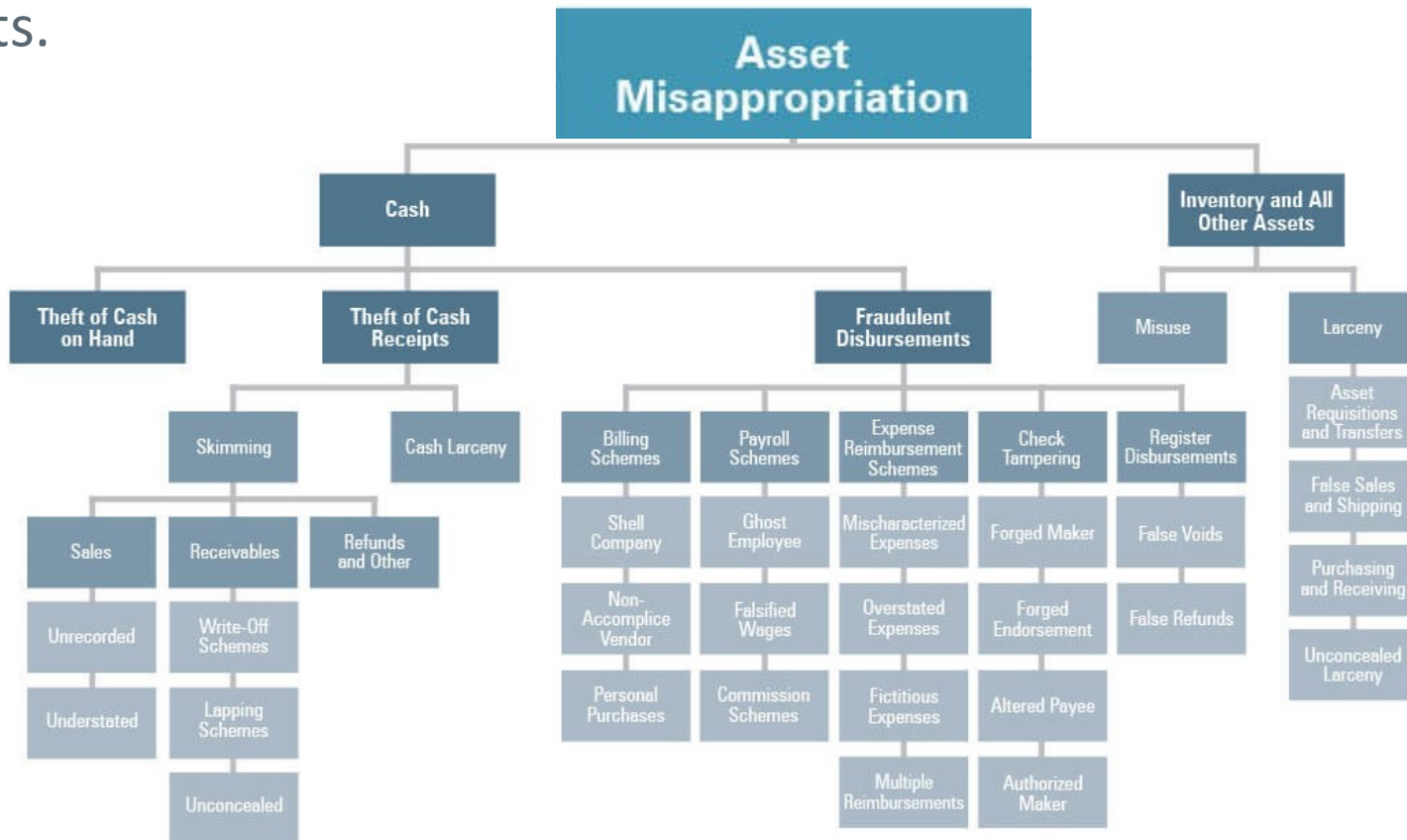


Figure 4. Misappropriation (ACFE, 2016).

Fraud Detection

Behavioral Red Flags

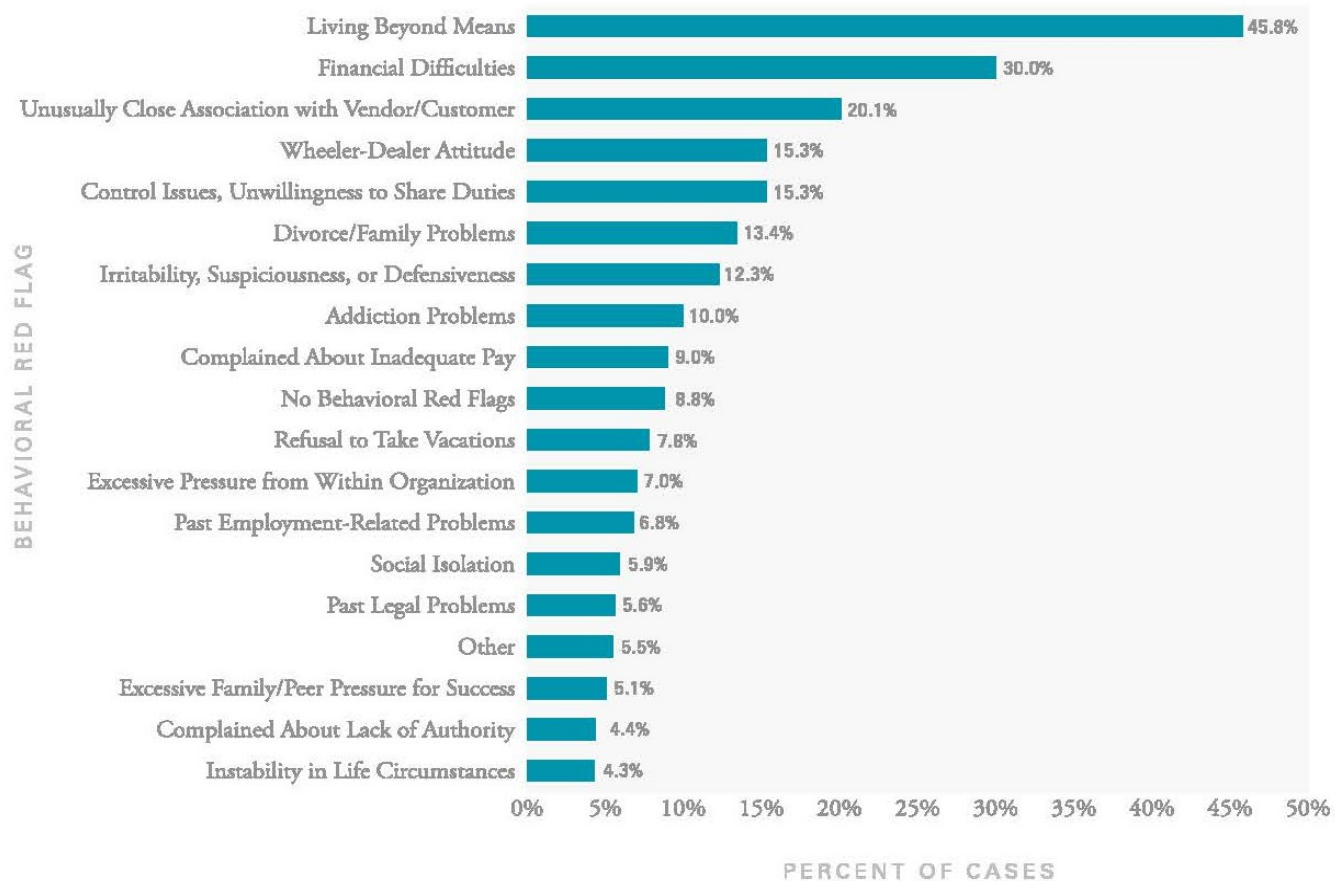


Figure 8. Red Flags (ACFE, 2016).

Living Beyond Means

- Known in Town as a “High Flyer”
- Employee set up dummy company
- Frequently went to Treasurer to pick up checks to that vendor – rushed processing
- Approved bills initiated by himself and charged to his own budget accounts
- No verification of vendor when set up



60 Street
Suite 239
MA

Invoice

Invoice #: 25549
Invoice Date: January 8, 2003
Customer ID: LUN 789

Bill To:

Ship To:
same

Date	Your Order #	Our Order #	Sales Rep.	FOB	Ship Via	Terms	
1-5-03	21218	55336	HSE		Best	30 days	

Quantity	Item	Units	Description	Discount %	Taxable	Unit Price	Total
1	998524-RP	1	Riso projector and cables	8	0	\$3997.65	\$3997.65

Subtotal	\$3997.65
Tax	0
Shipping	118.00
Miscellaneous	
Balance Due	\$4115.65

PO# 21218

REMITTANCE
Customer ID:
Date:
Amount Due:
Amount Enclosed:

Remittance must be returned with coupon for discount.

Close Relationship with Vendor

- Sewer Commission Superintendent and Regional Sales Manager had close relationship
- Wrote bid specs so that only this vendor would qualify (Sewer Operations Contractor)
- Allowance for capital purchases to be refunded if not spent
- Diverted refund checks to fake bank account controlled by Superintendent and Vendor Sales Manager

TOWN OF [REDACTED]
DBA [REDACTED] SEWER COMMISSION
33 SLEEPER STREET APT 407
BOSTON MA 02210

30
0
4

SML BUS CHECKING
ACCOUNT:

701080977

12/01/97 THRU 12/31/97

PAGE 1

MAKE YOUR 1997 IRA CONTRIBUTION AT MAINWRIGHT BANK BY APRIL 15, 1998
AND HAVE MORE FOR YOUR RETIREMENT WITH BENEFITS LIKE:
NO ANNUAL FEE . . . ADD .25% TO REGULAR CD RATES . . . FDIC INSURANCE.
SEE YOUR PERSONAL BANKER OR CALL 1-888-428-BANK FOR MORE INFORMATION.

SML BUS CHECKING ACCOUNT [REDACTED]

DESCRIPTION	DEBITS	CREDITS	DATE	BALANCE
ACCOUNT OPENED			12/01/97	
DEPOSIT		50,000.00	12/02/97	50,000.00
CHECK	500.00		12/11/97	49,500.00
CHECK	22,000.00		12/11/97	27,500.00
CHECK	822.00		12/22/97	26,678.00
CHECK	5,000.00		12/23/97	21,678.00
BALANCE THIS STATEMENT			12/31/97	21,678.00
TOTAL CREDITS	(1) 50,000.00	MINIMUM BALANCE		
TOTAL DEBITS	(4) 28,322.00			21,678.00
TAX ID NUMBER	04-6001281			

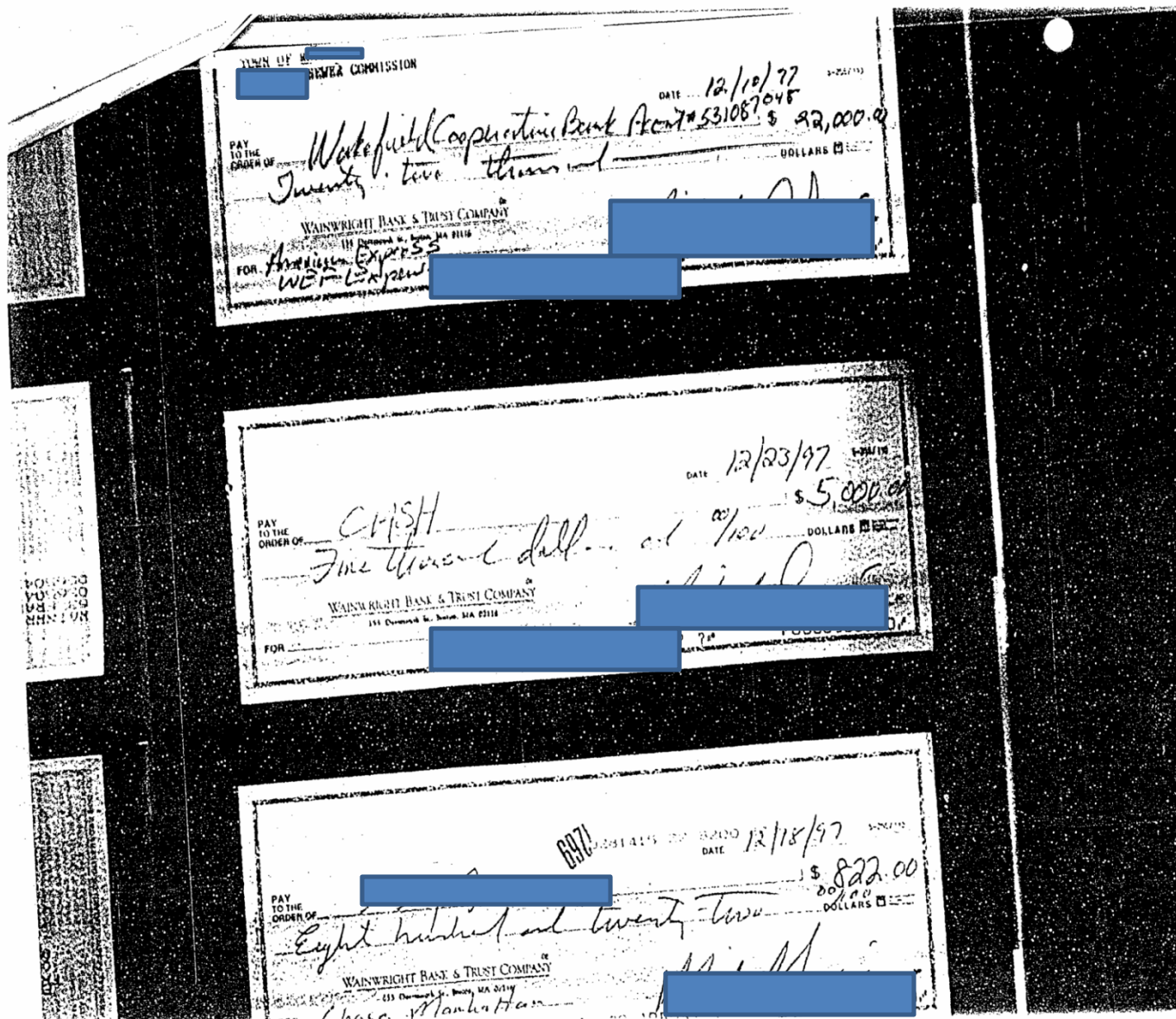
YOUR CHECKS SEQUENCED

DATE...CHECK #.....AMOUNT	DATE...CHECK #.....AMOUNT	DATE...CHECK #.....AMOUNT
12/11 * 500.00	12/22 * 822.00	
12/11 * 22,000.00	12/23 * 5,000.00	

(*) INDICATES A GAP IN CHECK NUMBER SEQUENCE

W-200

7/1/98



Drug Addiction Case

- Clerk was a drug addict having twice been in rehab
- Rehired by the City working 3 days per week in busy office
- No background check

How?

- Created Fraudulent Tax Refund Checks
- Used Excel Spreadsheet submitted with warrant instead of system generated list
- Used her Administrator level access to database and deleted transactions
- Little oversight
- Responsible for reconciling database
 - no segregation of duties

Results

- 131 potentially fraudulent tax refund checks
- \$530,482 in fraudulent checks
- \$117,383 in valid refunds still due to taxpayers
- 39 payees under suspicion
- Tax refund clerk is perpetrator

Red Flags - Receipts

- 🚩 Change in timeliness of deposits
- 🚩 Decrease in the amount of deposits.
- 🚩 Decrease in the amount of currency in deposits
- 🚩 Incorrect cutoff
- 🚩 Inconsistent deposit dates



Treasurer Clerk Suspicious Behavior

- New Treasurer relied on experienced clerks
- Deposits and postings not being made timely
- Repeated attempts by Treasurer to help catch up dismissed
- Took money and documents home to work on at night
- Employee irritable and defensive

Check Switching Scheme

- Deposit Slip - \$2,822.15 Cash, \$41,681.80 Checks for a Total of \$44,508.95
- Treasurer's Receipts verify \$44,508.95 Posting
- Receipts Detail shows Library Revolving "All Checks" for \$6,049.11
- Departmental Turnover shows cash of \$5,420 in turnover of \$6,049.11

Departmental Turnover

DEPOSIT TICKET
FOR CLEAR COPY, PRESS FIRMLY


DATE 12 December 2012

		DOLLARS	CENTS
CURRENCY		2821	00
COINS			15
CHECKS LIST EACH SEPARATELY		4168	75
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
TOTAL		4450	75

PLEASE RE-ENTER TOTAL HERE

PLEASE BE SURE ALL ITEMS ARE PROPERLY ENDORSED

TOWN OF [REDACTED]
GENERAL FUND

 **Citizens Bank**
Massachusetts

\$ 44508.75

TOTAL ITEMS 277

5-7017/2110
641

CHECKS AND OTHER ITEMS ARE RECEIVED FOR DEPOSIT SUBJECT TO THE PROVISIONS OF THE UNIFORM COMMERCIAL CODE OR ANY APPLICABLE COLLECTION AGREEMENT. DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL.

Treasury Receipts Packet Proof

Packet #	1164	Packet Description	DEPARTMENTAL	Fiscal Year	2013
Eff Date	TRCode	TR Code Name	Description	Reference	Amount Status
			FIREPLACE 965 WASHINGTON ST HANO		
12/11/2012	01-241-4450-4455	PERMITS - BUILDING INSPECTOR	CAMILA LEE 263 PLAIN ST	1775 WASH (B) CK#7011	\$50.00 Validated
12/11/2012	01-241-4450-4458	PERMITS - WIRING INSPECTOR	MARK J MCLAUGHLIN 164 SILVER ST [REDACTED]	153 DEERFIELD (E) CK#176	\$50.00 Validated
12/11/2012	23-630-225-4233-0088	FEES - REC GENERAL PROGRAMS	P AND R - TO#P&R-48 11/30/12	CHILDREN FD - CK#435	\$15.00 Validated
12/11/2012	29-336-33-0000-00-0001	REV - CN LIBRARY REVOLVING	SUPERINTENDENT - STEVE	ALL CHECKS	\$352.53 Validated
12/11/2012	29-315-31-0000-00-0001	REV - ATHLETICS REV GATE &	SUPERINTENDENT - STEVE	FOOTBALL-MIDDLEBORO	\$1,552.00 Validated
Total for				CITIZENS MAIN	\$44,508.95
Total for Deposit DV 12/11					\$44,508.95
Report Total					\$44,508.95

Town of [REDACTED]
Treasury Receipts Packet Proof

Packet #	1164	Packet Description	DEPARTMENTAL	Fiscal Year	2013
Eff Date	TRCode	TR Code Name	Description	Reference	Amount Status
12/11/2012	29-336-33-0000-00-0001	REV - CN LIBRARY REVOLVING	SUPERINTENDENT - CSH	ALL CHECKS	\$855.44 Validated
12/11/2012	29-336-33-0000-00-0001	REV - CN LIBRARY REVOLVING	[REDACTED]	\$1267.98CSH/\$288.46CKS	\$1,556.44 Validated
12/11/2012	29-336-33-0000-00-0001	REV - CN LIBRARY REVOLVING	[REDACTED]	\$834.91CSH/\$353.50CKS	\$1,188.41 Validated
12/11/2012	29-336-33-0000-00-0001	REV - CN LIBRARY REVOLVING	[REDACTED]	\$815.00CSH/\$165.74CKS	\$980.74 Validated
12/11/2012	29-336-33-0000-00-0001	REV - CN LIBRARY REVOLVING	[REDACTED]	ALL CHECKS	\$417.44 Validated
12/11/2012	89-210-960-4325	RCPTS - POLICE DETAILS	POLICE DEPARTMENT - DETAILS	ALL CHECKS	\$449.50 Validated
12/11/2012	29-337-35-0000-00-0001	REV - MS LIBRARY REVOLVING	SUPERINTENDENT [REDACTED]	ALL CHECKS	\$6,049.11 Validated
12/11/2012	29-337-35-0000-00-0001	REV - MS LIBRARY REVOLVING	[REDACTED]	ALL CHECKS	\$802.23 Validated
12/11/2012	29-315-31-0000-00-0001	REV - ATHLETICS REV GATE &	[REDACTED]	FOOTBALL-SCITUATE	\$1,457.00 Validated
12/11/2012	01-422-5114	Salaries & Wages Perm F/T	[REDACTED]	GOKEY - MIIA CK#537338	\$1,516.76 W: Not a Revenue
12/11/2012	01-422-5114	Salaries & Wages Perm F/T	[REDACTED]	GOKEY - MIIA CK#537338	\$1,516.76 W: Not a Revenue
12/11/2012	23-630-225-4233-0088	FEES - REC GENERAL PROGRAMS	[REDACTED]	CHILDREN CWM - CSH	\$20.00 Validated
12/11/2012	23-630-225-4233-0088	FEES - REC GENERAL PROGRAMS	[REDACTED]	CHILD KK - 120CSH/280CKS	\$400.00 Validated
12/11/2012	23-630-225-4233-0088	FEES - REC GENERAL PROGRAMS	[REDACTED]	REC CTR \$21CSH/\$14CK	\$35.00 Validated
12/11/2012	01-433-4300-4242	FEES/MISC - TRANSFERS	[REDACTED]	\$1335.80CSH/\$308.80CKS	\$1,644.60 Validated
12/11/2012	01-433-4300-4242	FEES/MISC - TRANSFERS	[REDACTED]	CK#14552	\$3,404.80 Validated
12/11/2012	60-450-4220-4220	WATER SERVICES	[REDACTED]	ALL CHECKS	\$2,270.10 Validated
12/11/2012	60-450-4220-4220	WATER SERVICES	[REDACTED]	ALL CHECKS	\$2,600.00 Validated
12/11/2012	01-510-4400-4410	LICENSES - BOARD OF HEALTH	[REDACTED]	COMMON VIC CASH	\$75.00 Validated
12/11/2012	01-241-4450-4456	PERMITS - PLUMBING INSPECTOR	[REDACTED]	40 MAPLEWD	\$60.00 Validated
12/11/2012	89-210-955-4450	RCPTS - PISTOL PERMITS (STATE	[REDACTED]	PISTOL PERMIT CK#1336	\$75.00 Validated
12/11/2012	01-210-4450-4450	PERMITS - POLICE DEPARTMENT	[REDACTED]	PISTOL PERMIT CK#1336	\$25.00 Validated
12/11/2012	01-241-4450-4455	PERMITS - BUILDING INSPECTOR	[REDACTED]	35 BARD ROCK (B) CK#1008	\$3,870.00 Validated
12/11/2012	01-241-4450-4455	PERMITS - BUILDING INSPECTOR	[REDACTED]	416 COLUMBIA (B) CK#8163	\$160.00 Validated
12/11/2012	01-241-4450-4458	PERMITS - WIRING INSPECTOR	[REDACTED]	926 BROADWAY (E) CK#794	\$150.00 Validated
12/11/2012	01-241-4450-4455	PERMITS - BUILDING INSPECTOR	[REDACTED]	26 BITTWEERSWEET (ST)	\$50.00 Validated
12/11/2012	01-241-4450-4455	PERMITS - BUILDING INSPECTOR	[REDACTED]	10 GRAHAM HILL (ST)	\$50.00 Validated

APTR_Proof_709091011

12/18/2012 02:29:10 PM

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COLLECTORS COPY



Voucher #

TOWN OF
SCHEDULE OF DEPARTMENTAL RECEIPTS

DEPARTMENT: **MIDDLE SCHOOL**

DATE:

3/8/12

STUDENT ACTIVITIES

FROM WHOM	RECEIPT DESCRIPTION	ACCOUNT NUMBER TO BE CREDITED	AMOUNT
ANASTASIADES	CK 2037	29-337-35-0000-00-0001	16.98
WHITNEY	CK 2043	29-337-35-0000-00-0001	20.69
PONGRATZ	CK 1461	29-337-35-0000-00-0001	61.56
LAROE	CK 2364	29-337-35-0000-00-0001	32.99
ACAMPORA	CK 4616	29-337-35-0000-00-0001	21.23
BYRNE	CK 335	29-337-35-0000-00-0001	18.05
TARBOX	CK 344	29-337-35-0000-00-0001	16.93
DEVLIN	CK 4549	29-337-35-0000-00-0001	31.79
WHITE	CK 1141	29-337-35-0000-00-0001	7.00
O'DOWD	CK 6300	29-337-35-0000-00-0001	20.17
KNIGHT	CK 1409	29-337-35-0000-00-0001	28.67
ARMSTRONG	CK 7668	29-337-35-0000-00-0001	10.00
HICKEY	CK 2127	29-337-35-0000-00-0001	27.50
GIOIOSO	CK 682	29-337-35-0000-00-0001	50.95
MONAHAN	CK 1354	29-337-35-0000-00-0001	20.00
KEADY	CK 1965	29-337-35-0000-00-0001	29.00
CASH	-	29-337-35-0000-00-0001	5,420.00
			\$6,049.11

, the sum of 6,049.11

Town Collector

Date

Red Flags - Payroll

- 🚩 Checks paid for an unreasonable amount of hours worked
- 🚩 More than one employee with the same bank account number, SSN, or address
- 🚩 Employees with no deductions for benefits
- 🚩 Blank social security numbers for employees on payroll
- 🚩 A terminated employee still on the payroll

Examples - Payroll Schemes

- Teachers were receiving grant stipends for work they were performing during their regular hours.
- Police lieutenant responsible for scheduling and reviewing payroll worked traffic details during regular schedule shifts.
- Employees took vacation and sick days, yet did not report them to payroll.

Examples - Payroll Schemes

- Employee responsible for entering payroll information had a son and a niece who also worked for the City. This employee would enter time for the relatives for which they never worked.
- Supervisor went to a staff member and ordered the employee to submit overtime for which the employee didn't work. The supervisor then required the employee to pay over the money received for the overtime that the employee never worked.

Employee Issued Payroll Checks

- Employee produced checks and reconciled payroll bank account
- Possession of rubber stamp with Treasurer signature
- Used blank manual and alignment checks
- Checks to former employees converted to personal use

City of
Summary Unauthorized Checks Endorsed by -----
September 2, 1999 to February 2, 2001

Check # **Amount** **Date**
Cashed
City Hall Administration Account Alignment Checks Payable to Accused

46388	\$ 795.04	09/29/00
47354	795.04	10/05/00
47819	795.04	10/26/00
48817	449.57	12/18/00
48818	795.04	12/22/00
48977	830.63	01/09/01
44454	830.63	01/11/01
44453	449.37	01/19/01
49116	830.63	01/22/01
49117	830.63	02/01/01
49399	830.63	02/13/01
49547	863.30	02/23/01
	<u>9,095.55</u>	

Undelivered School Department Employee Retroactive Checks

161966	621.91	02/07/01
161965	1,035.49	02/16/01
161998	626.14	02/07/01
	<u>2,283.54</u>	

School Department Manual Checks Issued to Former Employees

93792	234.66	12/23/99
93789	559.12	12/27/99
93760	866.54	12/03/99
93752	863.41	09/07/99
93800	221.64	05/26/00
93801	209.48	06/16/00
93808	755.68	07/12/00
93814	847.10	07/13/00
93802	777.21	06/26/00
93816	755.68	06/15/00
93889	271.07	07/31/00
93887	821.44	08/18/00
93826	717.94	09/01/00
93886	900.97	09/08/00
93885	969.08	09/14/00
93827	997.60	09/14/00

City of
Summary Unauthorized Checks Endorsed by -----
September 2, 1999 to February 2, 2001

<u>Check #</u>	<u>Amount</u>	<u>Date Cashed</u>
93828	845.65	09/15/00
93830	352.93	09/20/00
93884	1,066.18	09/28/00
93881	742.43	10/10/00
93883	862.40	10/19/00
93876	1,262.40	11/09/00
93875	1,202.46	11/17/00
93874	1,205.04	11/28/00
93832	445.39	12/18/00
93833	903.62	12/19/00
93834	458.04	12/20/00
93798	963.06	12/26/00
93836	862.40	01/04/01
93840	1,035.49	02/01/01
93790	227.35	01/18/00
	<u>23,203.46</u>	

School Department Alignment Checks Issued to Former Employees

135724	777.21	08/10/00
135725	669.54	07/24/00
108027	742.43	10/13/99
109192	271.07	09/30/99
111024	412.81	09/14/99
111025	221.31	09/20/99
117227	276.93	12/22/99
117228	309.39	12/13/99
118588	468.07	12/10/99
	<u>4,148.76</u>	

Grand Total \$ 38,731.31

Red Flags - Disbursements

- 🚩 Invoices that appear unusual
- 🚩 Complaints from employees or vendors
- 🚩 Vendors with the same address as employees
- 🚩 Internal invoices
- 🚩 Photocopied invoices
- 🚩 Self approved reimbursements
- 🚩 Missing, incomplete or altered documentation

Misuse of Petty Cash Account

- \$300 petty cash account
- Submitted vouchers but not supporting receipt slips
- Frequent reimbursements of petty cash greater than the \$300 limit
- Employee in position to process and approve transaction

Sample Voucher for
Petty Cash Reimbursement

School District

...6/24.....1997.....

To Petty Cash - District Office Dr.

[illegible]

District Petty Cash Use

Fiscal 1997 \$ 23,559.73

Fiscal 1998 32,899.58

Fiscal 1999 12,807.60

Fiscal 2000* 591.20

TOTAL \$ 69,858.11

*Fiscal 2000 total as of May 23,
2000.

Fraudulent Reimbursement

- Credit card statement submitted without supporting invoice
- Clearly altered as statement indicates no transactions in summary information at the bottom of statement
- Inadequate description of purchase

0732
7A EX7 09 0
55150001 3513



MINIMUM PAYMENT DUE	AVAILABLE CREDIT	PAYMENT DUE DATE	CREDIT LIMIT	ACCOUNT NUMBER	PLEASE WRITE IN AMOUNT OF PAYMENT ENCLOSED
95.00	1360.65	04/26/01	5000		

PLEASE DETACH AND ENCLOSE TOP PORTION WITH PAYMENT

Payments received at the below mailing address before 2:00 p.m. will be credited
to your account as of the date of receipt. Payments received at any other location
may be subject to a delay in crediting of up to 5 days after the date of receipt.
Use enclosed envelope and make payment to:

ACCOUNT NUMBER	CREDIT LIMIT	AVAILABLE CREDIT	BILLING CYCLE	CLOSING DATE	PAYMENT DUE DATE	MINIMUM PAYMENT
	5000	1360.65	30	04/08/01	04/26/01	95.00

TRANS DATE	REFERENCE NUMBER	CHARGES, PAYMENTS AND CREDITS SINCE LAST STATEMENT	AMOUNT
04 07	611439005885	PBR/SATELLITE 2002	3600.00
		FINANCE CHARGE* PURCHASES	
		TOTAL *FINANCE CHARGE	
AN AMOUNT FOLLOWED BY A MINUS SIGN (-) IS A CREDIT OR A CREDIT BALANCE UNLESS OTHERWISE INDICATED.			
PREVIOUS BALANCE	PAYMENTS	CREDITS	NEW BALANCE
0.00		0.00	3639.35



7A

ANNUAL PERCENTAGE RATES	12.05%
MONTHLY PERIODIC RATES	1.005%
DAILY PERIODIC RATES	.03301%

SEND NOTICE OF BILLING ERRORS TO:
OLD KENT BANK P.O. BOX 817 FLINT, MI 484119

Another Credit Card Reimbursement

- Credit card statement with no receipt backup
- Item never purchased
- Information does not line up
- Does not look like typical credit card statement



www.mbna.net/access.com

CARDHOLDER SINCE
1993

ACCOUNT NUMBER	
[REDACTED]	
PAYMENT DUE DATE	NEW BALANCE TOTAL
01/11/02	\$ 75,000.00
TOTAL MINIMUM PAYMENT DUE	AMOUNT ENCLOSED
\$ 1,536.99	
DETACH TOP PORTION AND RETURN WITH PAYMENT	

Account information call 1-800-826-2556
Change of address or new telephone number below

Account information call 1-800-826-2556
Change of address or new telephone number below

Address _____
City _____ State _____ Zip _____
Home phone _____ Work phone _____

11

A 01462-440010

Purchases and Adjustments

11/11 7598

Scarecrow Publishing

2,152.80

CHARGE SCHEDULE

Charge	Periodic Rate	Corresponding Annual Percentage Rate	Balance Subject to Finance Charge
Advances			
BALANCE TRANSFERS, CHECKS	0.062958% DLY	22.98%	\$53.83
ATM, BANK	0.062958% DLY	22.98%	\$1,536.99
PURCHASES	0.062958% DLY	22.98%	\$6,246.92

THE BILLING PERIOD:
ANNUAL PERCENTAGE RATE 22.98%

Single-Periodic Rate and Transaction Fee Finance Charges.

SEE REVERSE SIDE FOR IMPORTANT INFORMATION.

FOR YOUR SATISFACTION, EVERY HOUR, EVERY DAY

- For Customer Satisfaction and up-to-the-minute information regarding balance, available credit, payments (including payments due, due date, payment address information, or to request duplicate statements, call 1-800-826-2556.
- For TDD (Telecommunications Device for the Deaf) assistance, call 1-800-845-3178.
- Mail payments to: MBNA AMERICA, P.O. BOX 15187, WILMINGTON, DE 19806-8187.
- Billing rights are preserved only by written inquiry. Mail billing inquiries, using form on the back, and other inquiries to: MBNA AMERICA, P.O. BOX 15026, WILMINGTON, DE 19850-9026.

2465 50Z 205 0810 0400 00

4800 1275 1117 2053

PAGE 1 OF 1

Off Book Bank Accounts

- Student Activity Account - \$6M
- Library Trustee Account- \$800K
- Friends of Senior Center - \$30K
- Petty Cash Checking - \$400K

Off-Books Bank Accounts

- All accounts were not on City/Town general ledger
- All accounts were not held by or reconciled by Treasurer or Independent Party.
- Individual had control of bank account and related accounting records

How to Locate Off-Book Accounts

- Treasurer sends a letter to all banks in the area (not just banks used by the City/Town) asking for all accounts under the FID of the City/Town
- Identify possible unknown accounts:
 - Schools
 - Libraries
 - Senior Centers
 - Recreation Departments

How to Locate Off-Book Accounts

- Assess relationships with outside support organizations
 - Friends of Library
 - Friends of Senior Center
 - Booster Clubs
 - Parent Teacher Organizations
 - Recreation Groups using City/Town Facilities

Fraud Prevention

- Risk Assessment
- Internal Controls
- Perception of Detection
- Management Tone
- Fraud Policy
- Whistleblower Hotline



Risk Assessment

What is Risk Assessment?

Risk assessment is a discipline for dealing with the possibility that some future event will cause harm. It provides strategies, techniques, and an approach to recognizing and confronting any threat faced by your organization in fulfilling its mission.

Risk Assessment

Three Basic Questions:

- 1) What can go wrong ?
- 2) What will we do (both to prevent the risk event from occurring and in the aftermath of an “incident”?)
- 3) If something happens, how will we pay for it (what are the costs)?

Fraud Policy

- Protection for the Organization
- Protection for the Employees
- Enforces Management Tone
- Provides Necessary Guidance
- MHCO can Provide Sample Model Policies



Fraud Detection Sources of Tips

Insiders

- Employee
- Governing Board
- Management

Outsiders

- Auditor
- Bank
- Vendor
- Customer
- Citizen

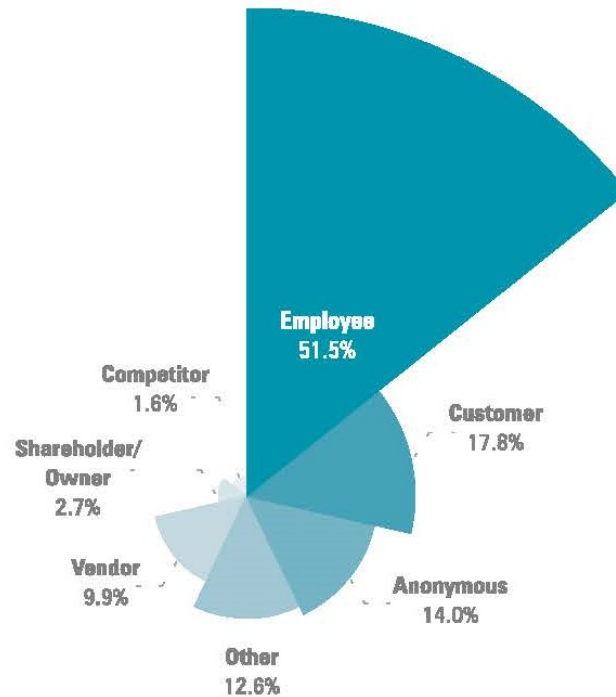


Figure 7. Tips (ACFE, 2016).

INTERNAL OR EXTERNAL INVESTIGATION

- In-House Resources
- Expertise
- Independence and Conflicts
- Notification to Local Police
- Inform Legal Council
- Inform Your Auditors

WHEN TO CONFRONT EMPLOYEE

Early in the Investigation

- Advantages
 - Likelihood of Confession?
 - Obtain Key Information
- Disadvantages
 - Alerts Suspect
 - Ability to Destroy or Alter Evidence
 - Influence Potential Witnesses

WHEN TO CONFRONT EMPLOYEE

LATE IN THE INVESTIGATION

- The more known about the evidence the better to detect lies or misinformation
- Ability to challenge defensive responses
- The devil is in the detail
- More likely to obtain a confession

PROTECT EMPLOYEE RIGHTS

- May Jeopardize Future Proceedings
- Lawsuit Against You or Your Government
- Required by Law or Policy
- It is the Right Thing to Do

PROTECT EMPLOYEE RIGHTS

- Place on Leave
- Miranda Rights
- Right to Counsel or Union Rep
- Right to Privacy
- Right to Safety (non-threatening)
- Right to Due Process

PRESERVATION OF EVIDENCE

- Chain of Custody
- Secure Records
- Where to Store Records
- **DO NOT** Mark on or Write on Originals
- Secure Originals Retain Copies for Files

References

- Association of Certified Fraud Examiners (ACFE). (2016). *Report to the Nations on Occupational Fraud and Abuse: 2016 Global Fraud Study*. Austin, TX: ACFE Global Headquarters.