



plante moran

Fraud in Government: Protect the Public's Money

Colorado Government Finance Officers Association (CGFOA) | July 30, 2020

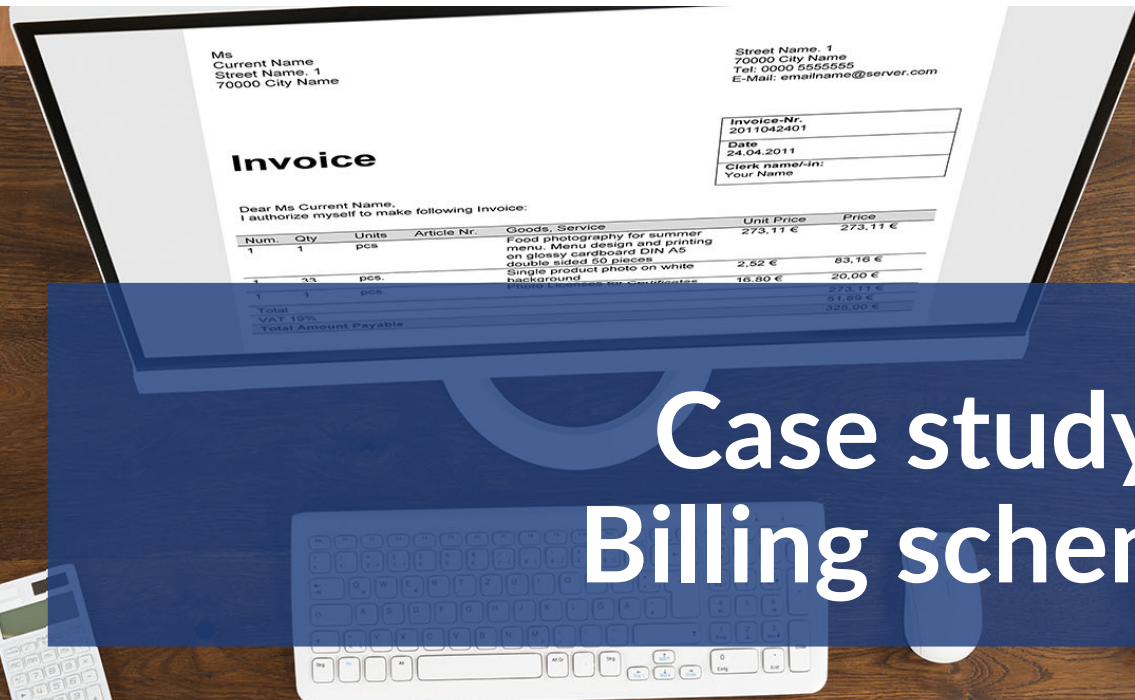


DISCLAIMER

The case study information in this presentation is information that is publicly available and/or we have our clients' consent to use for training and marketing purposes.

However, in most cases, we still redact this information in order to limit the exposure of our clients' unfortunate situations.

These slides are the property of Plante & Moran, PLLC and are not to be copied, recorded, distributed, and/or used in any way without written permission from Plante & Moran, PLLC.



Case study – Billing scheme





Billing scheme

What is it?

Designed to cause the business to make a fraudulent payment to the employee, while recording the payment as a legitimate business expense.

- Shell companies
- Inflated invoices
- Personal purchases



Who is Plante Moran?

Fast facts



1924

Year founded



3,100+

Staff



26

Offices worldwide



25+

Industries served



50

States with clients



120+

Countries with clients



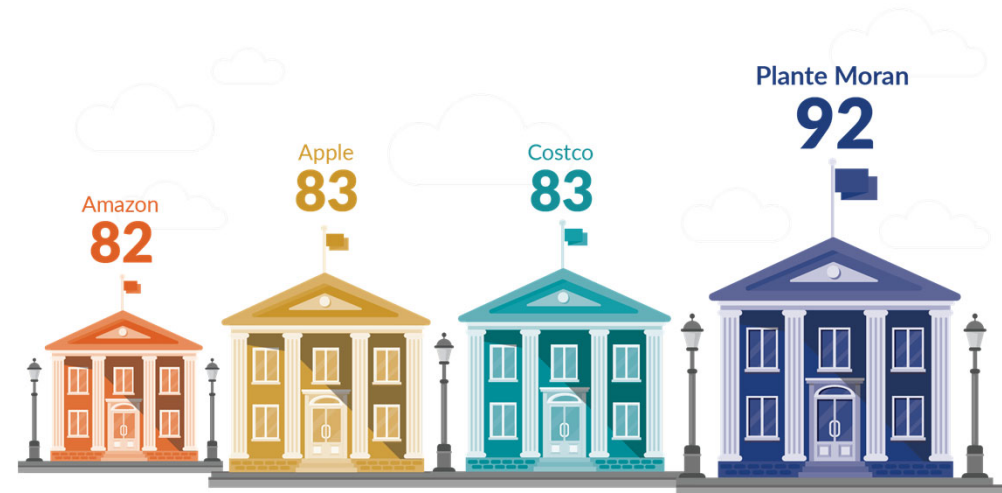
45+

Services available



27

Languages spoken
firmwide



Source: Plante Moran's score is from our client satisfaction survey conducted by the CFI Group using the American Customer Satisfaction Index (ACSI) methodology. Other companies' scores were provided by the ACSI. The scores are not satisfaction percentages, but rather raw scores.

Your speakers



Michelle McHale-Adams, CPA/CFF, CFE
Partner, Forensic Practice Leader
Forensic & Valuation Services
616-643-4059
Michelle.McHale@plantemoran.com



Eric Conforti, CPA, CFE
Senior Manager, Public Sector Leader
Forensic & Valuation Services
248-223-3621
Eric.Conforti@plantemoran.com

Why hire Plante Moran for forensic accounting?



Nationwide forensic accounting group recognized as a leader in Public Sector investigations (25% - 50% of practice)



Collaboration with industry experts
(a key differentiator from our competitors)



Ability (and experience) to work with clients anywhere in the country
(in-person or remote)



COVID-19: Ability, technology, experience, and security to work remotely, allowing us to operate in FULL during this unique situation

Plante Moran has been named winner in the category of
Best Forensic Accounting Services by
Michigan Lawyers Weekly Reader Rankings





Agenda



Recent fraud trends



Anti-fraud controls



Detection methods



Prevention methods



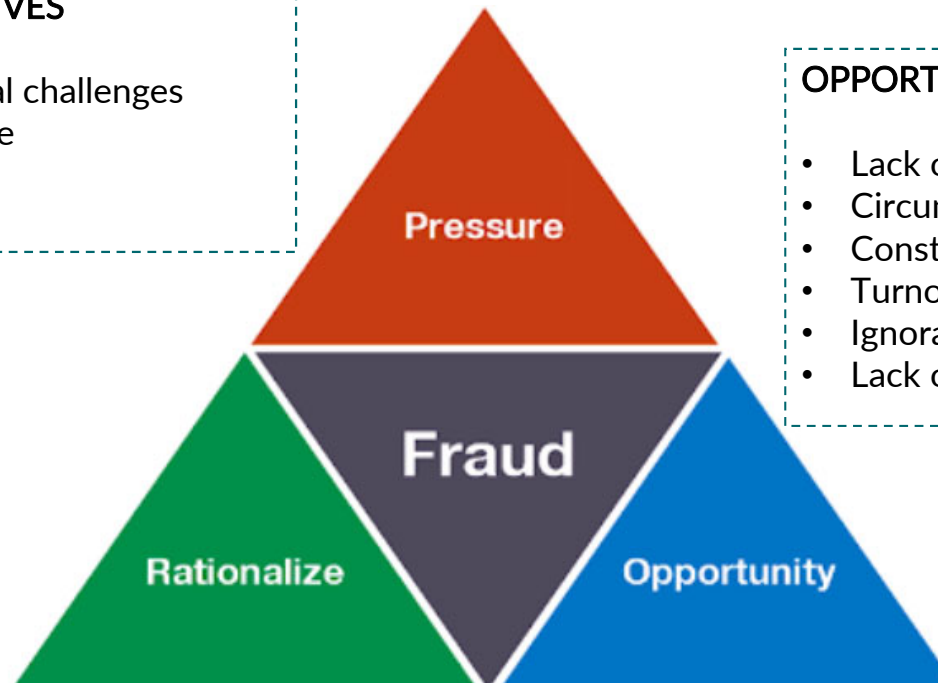
Case studies - throughout



Why now?

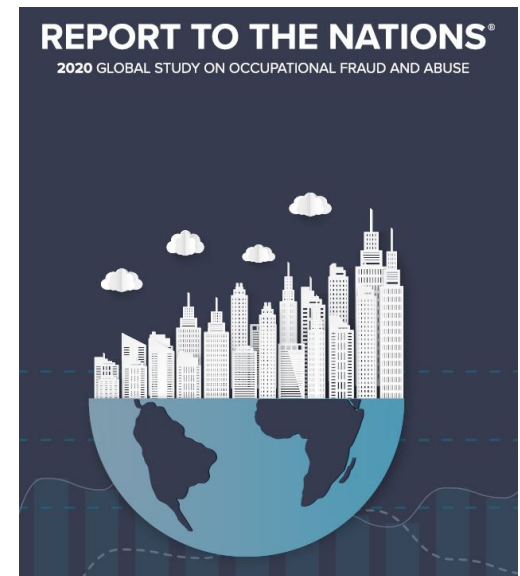
PRESSURES/MOTIVES

- Sudden financial challenges
- Unknown future
- “New” normal
- Greed



OPPORTUNITY

- Lack of internal controls
- Circumvention of controls
- Constant, rapid changes
- Turnover
- Ignorance or incapacity to detect fraud
- Lack of an audit trail

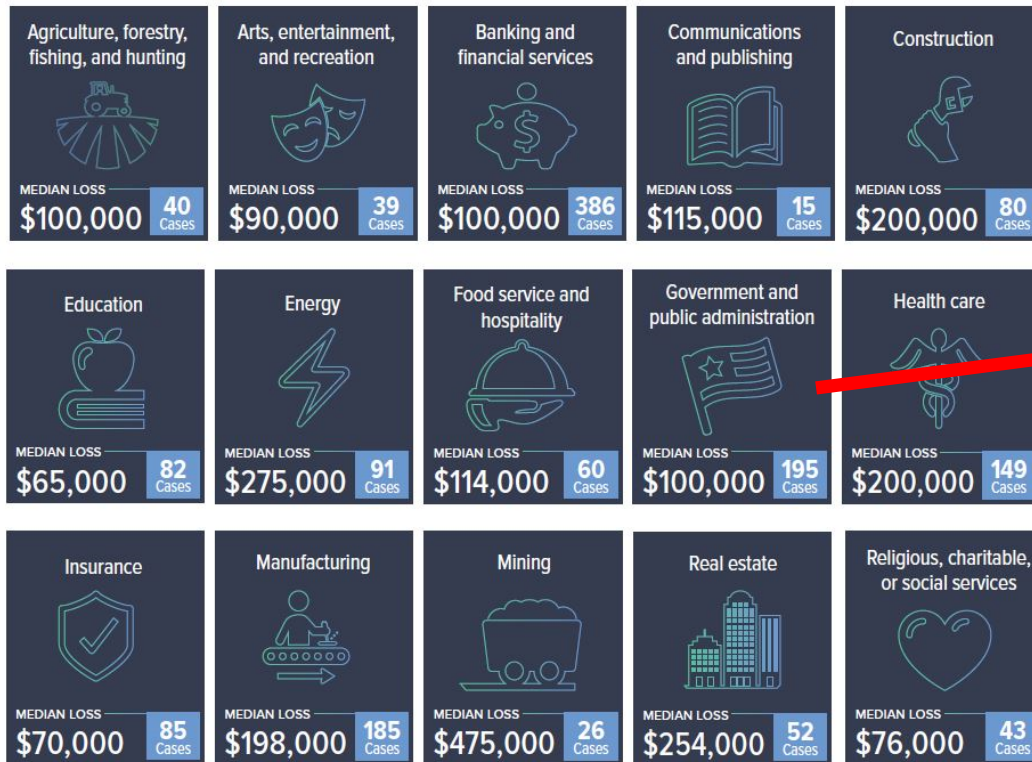


ACFE Report to the Nations



Recent fraud trends

Fraud by industry



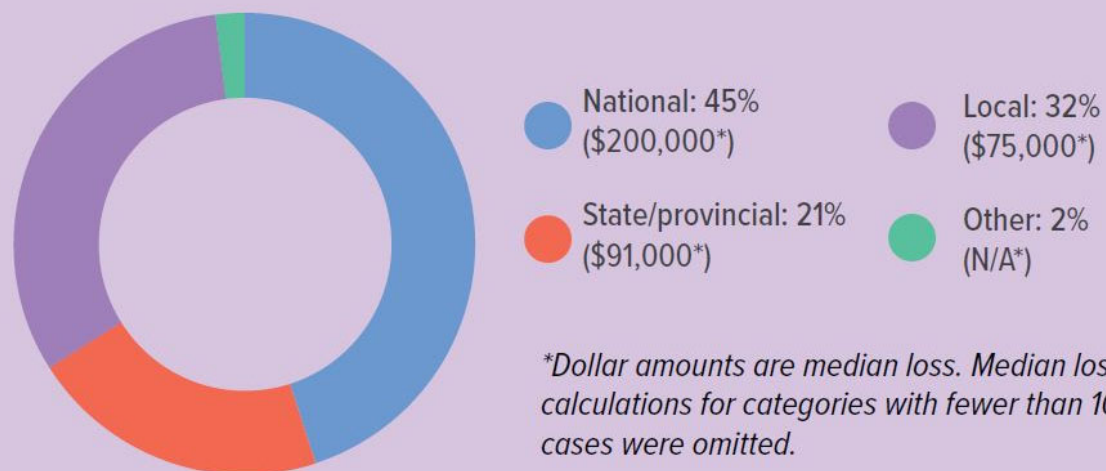


Recent fraud trends

Governmental fraud



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





Recent fraud trends

The perpetrator

GENDER (US and Canada)

59% Male
Median Loss \$150,000

41% Female
Median Loss \$85,000

AGE

53% of perpetrators
are between 31 to 45
years old

DEPARTMENT

1. Operations (15%)
2. Accounting (14%)
3. Executive (12%)

POSITION

1. Employee (41%)
2. Manager (35%)
3. Owner (20%)



Recent fraud trends

The perpetrator

Impact of collusion



49%
of cases

ONE PERPETRATOR

\$90,000 Median loss



18%
of cases

TWO PERPETRATORS

\$105,000 Median loss



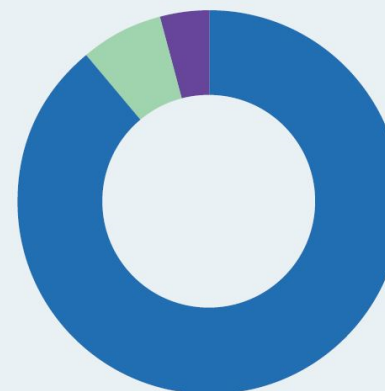
33%
of cases

THREE OR MORE PERPETRATORS

\$350,000 Median loss

Criminal history

FIG. 39 Do perpetrators tend to have prior fraud convictions?



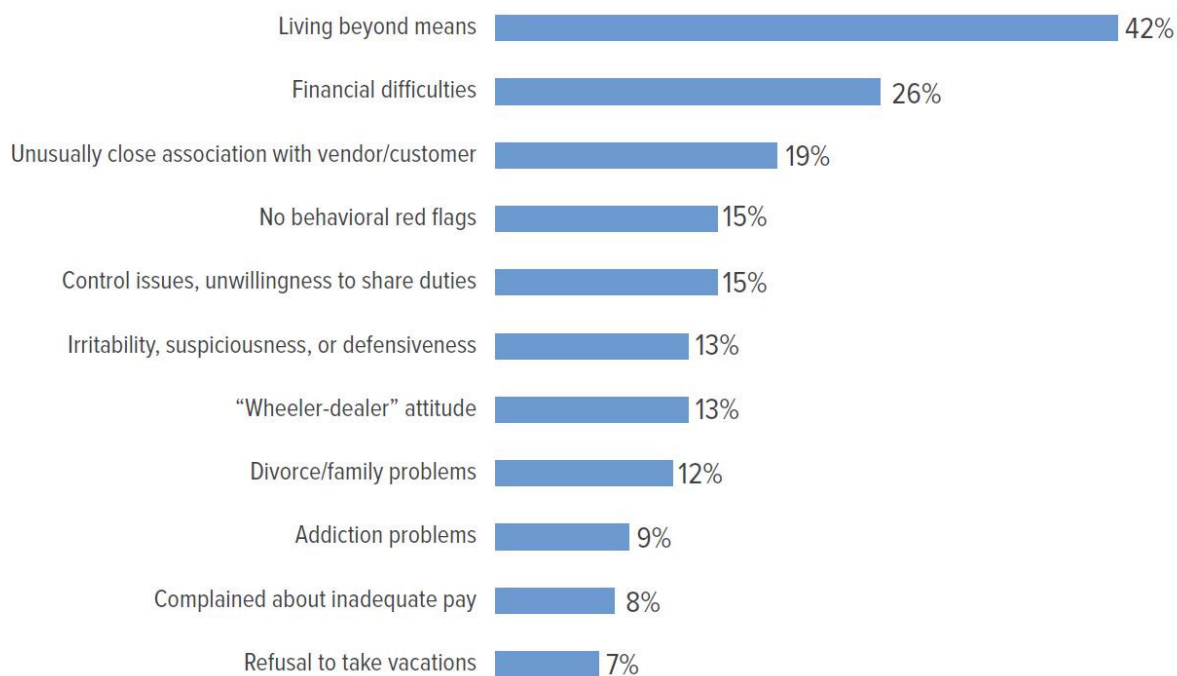
- Never charged or convicted (89%)
- Charged, but not convicted (7%)
- Had prior convictions (4%)



Recent fraud trends

The perpetrator – behavioral red flags

FIG. 41 How often do perpetrators exhibit behavioral red flags?





Recent fraud trends

The most common schemes

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Government and public administration	189	18%	5%	9%	4%	48%	17%	4%	17%	17%	0%	7%



Recent fraud trends

The most common schemes

Corruption
(48%)

Billing (18%)

Expense
reimbursement
(17%)

Payroll (17%)

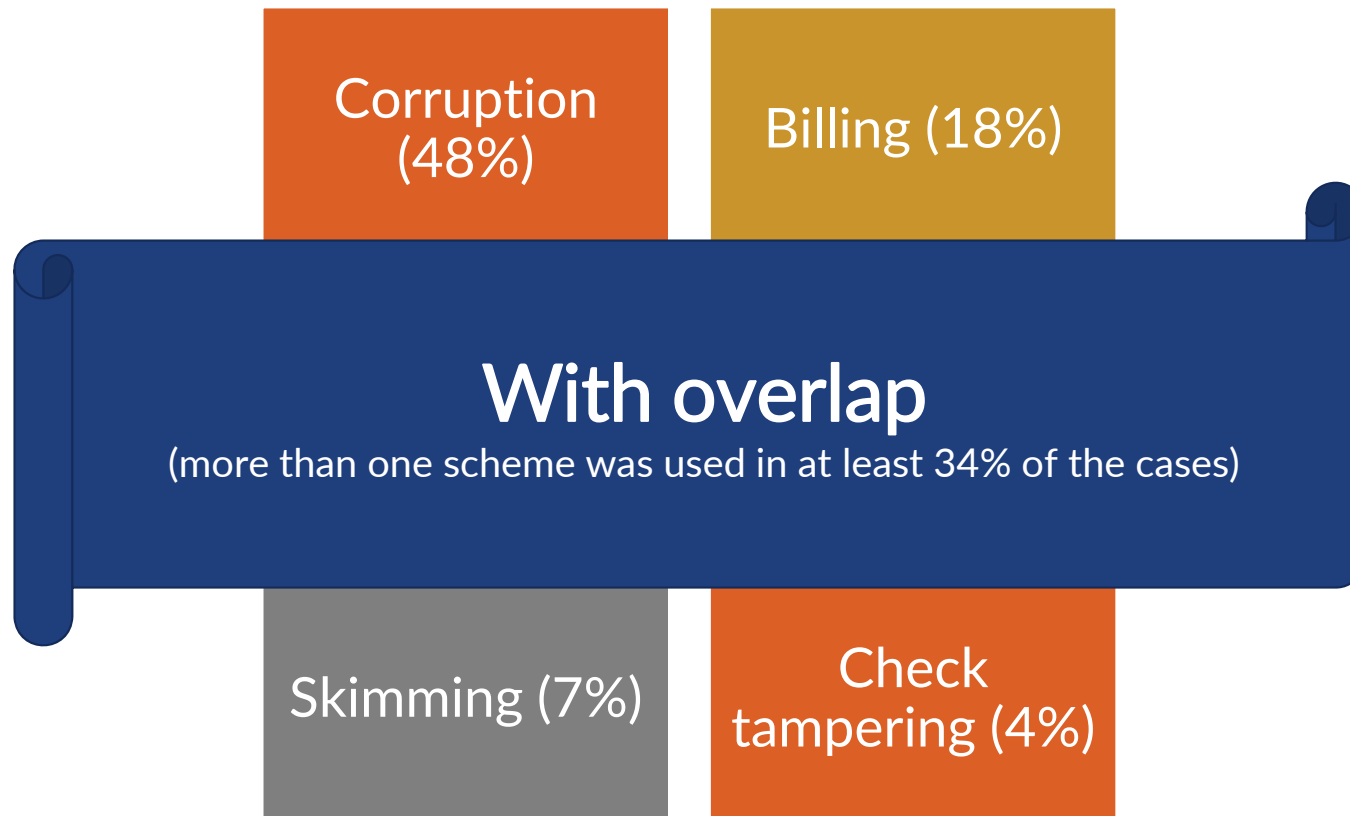
Skimming (7%)

Check
tampering (4%)



Recent fraud trends

The most common schemes



Case study – Billing scheme





Billing & corruption scheme

What are they?

Billing scheme: A person causes employer/client, via submission of an invoice, to issue a payment for fictitious goods or services.

- Shell companies
- Inflated invoices
- Personal purchases

Corruption scheme: The wrongful use of influence to procure a benefit for the actor or another person, contrary to their duty or the rights of others.

- Bribery
- Kickbacks
- Conflicts of interest



Billing & corruption scheme

Takeaways

Prevention methods

- How are new vendors approved?
- Do you have a conflict of interest policy?
- Who is reviewing invoices for approval?
 - Do they have proper knowledge of the work being performed?

Detection methods

- Review payments just below approval thresholds
- Review multiple invoices from the same vendor
- Pay attention to trends. Are you performing analytics?



Billing & corruption scheme

Takeaways

Prevention methods

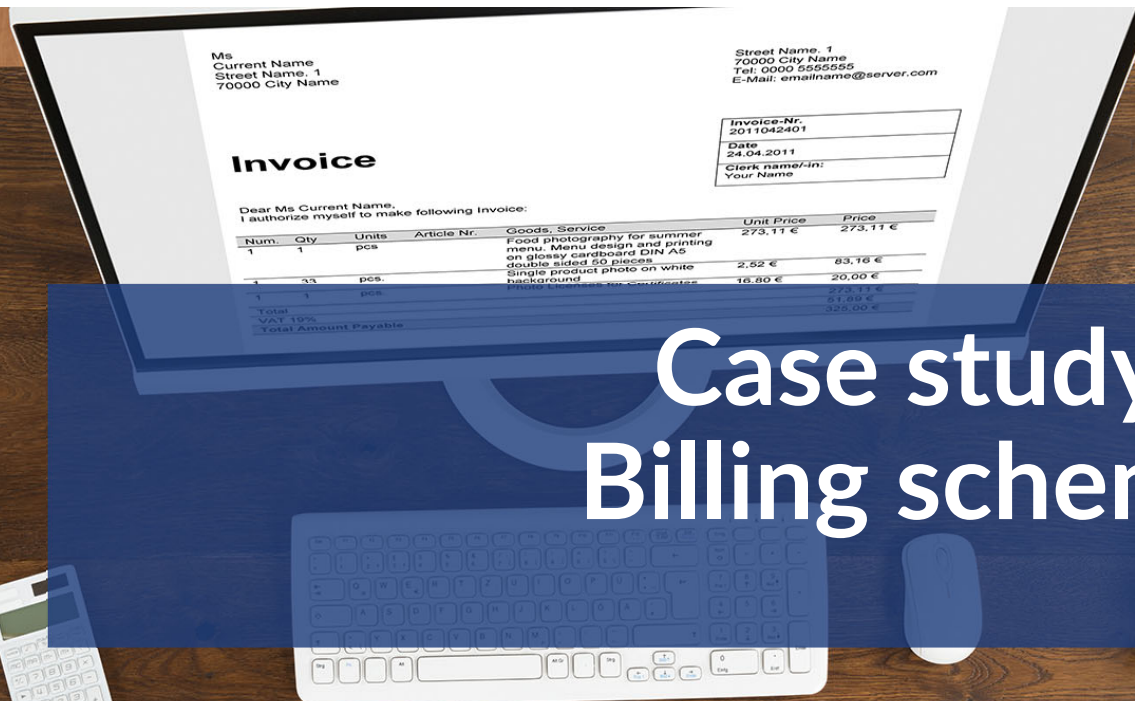
- How are new vendors approved?

Key takeaway:

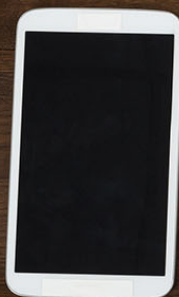
When disaster strikes, what controls exist around your emergency procedures (i.e., the new normal)?

Detection methods

- Review payments just below approval thresholds
- Review multiple invoices from the same vendor
- Pay attention to trends. Are you performing analytics?



Case study - Billing scheme



Anti-fraud controls



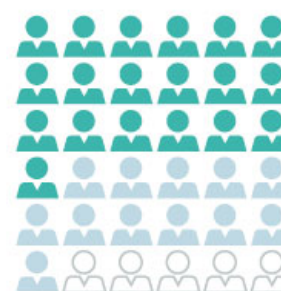
Anti-fraud controls Tips

TIPS are by far the most common initial detection method

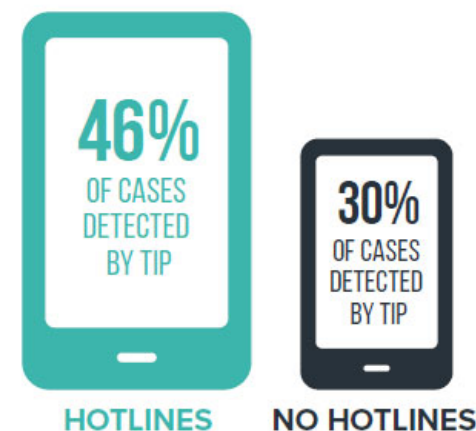


EMPLOYEES provide over half of tips, and nearly 1/3 come from

OUTSIDE PARTIES



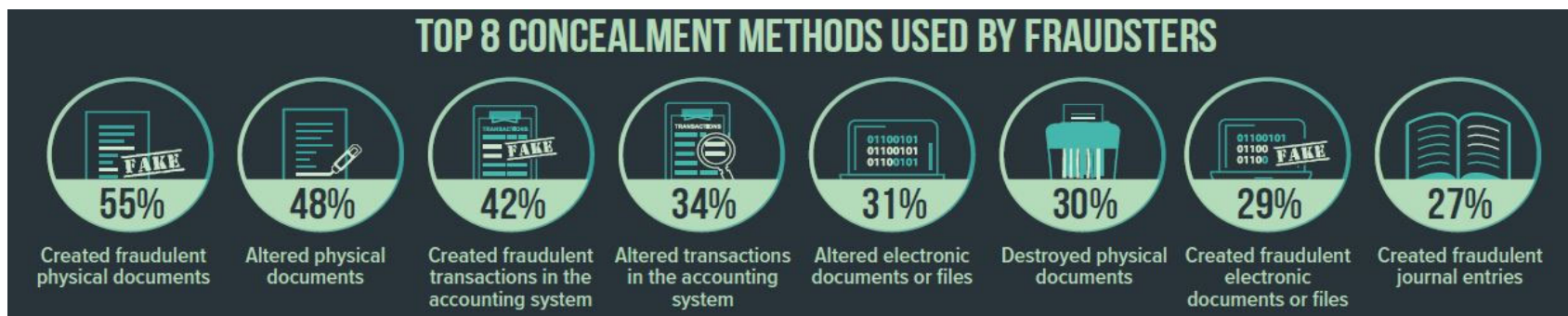
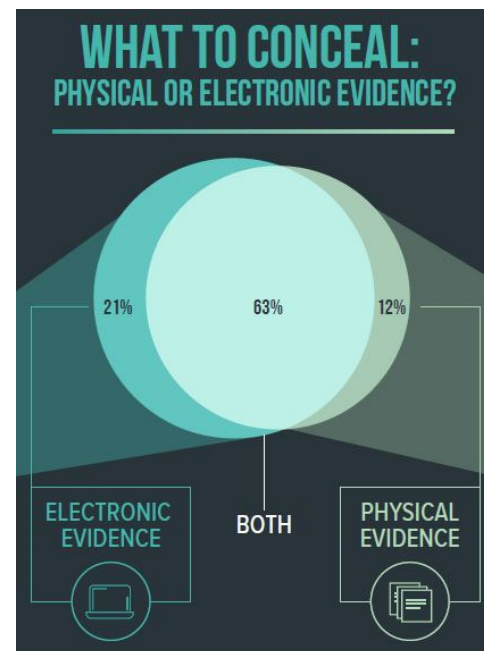
ORGANIZATIONS WITH HOTLINES detect fraud by tips more often





Anti-fraud controls

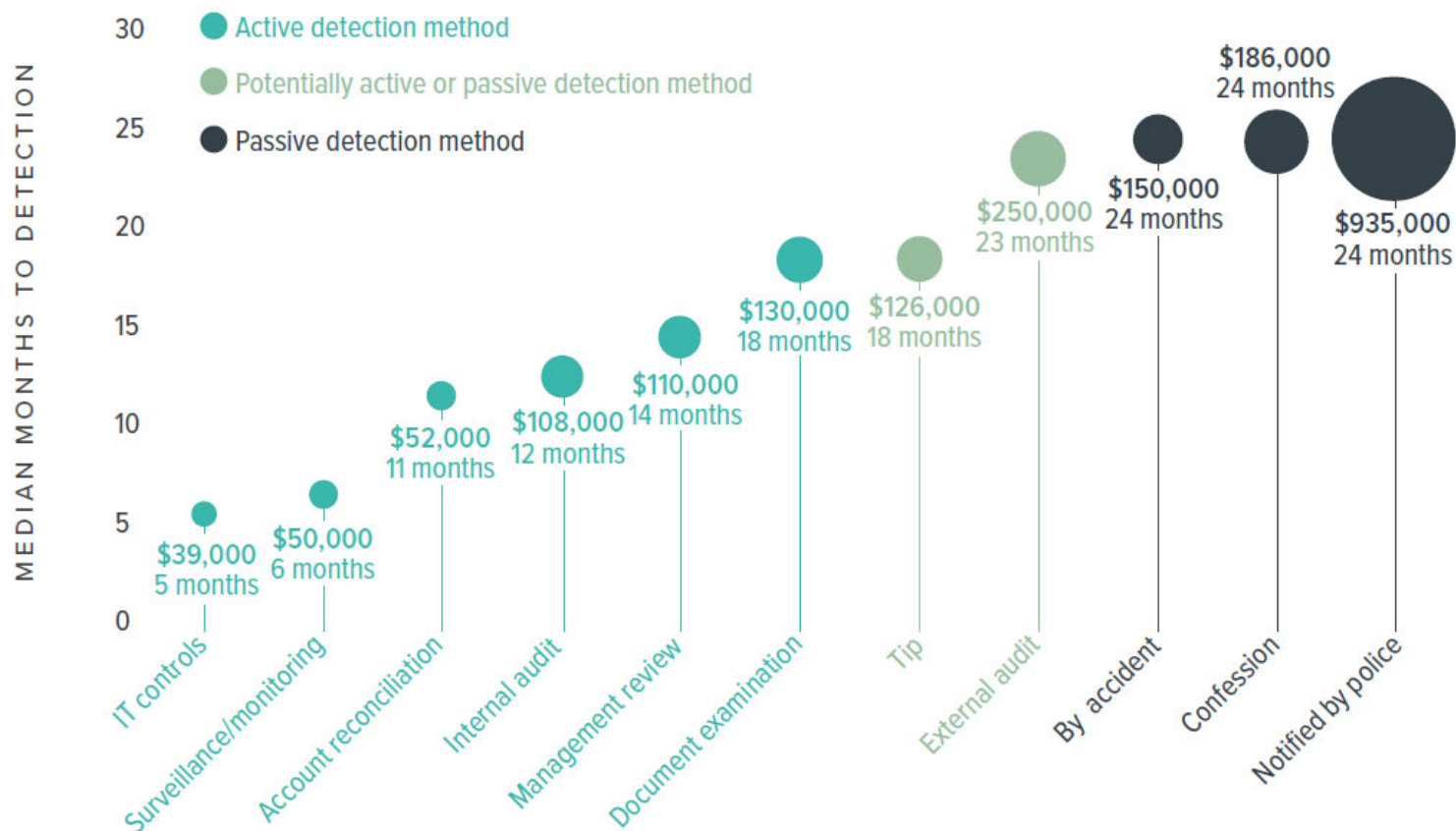
Professional skepticism





Anti-fraud controls

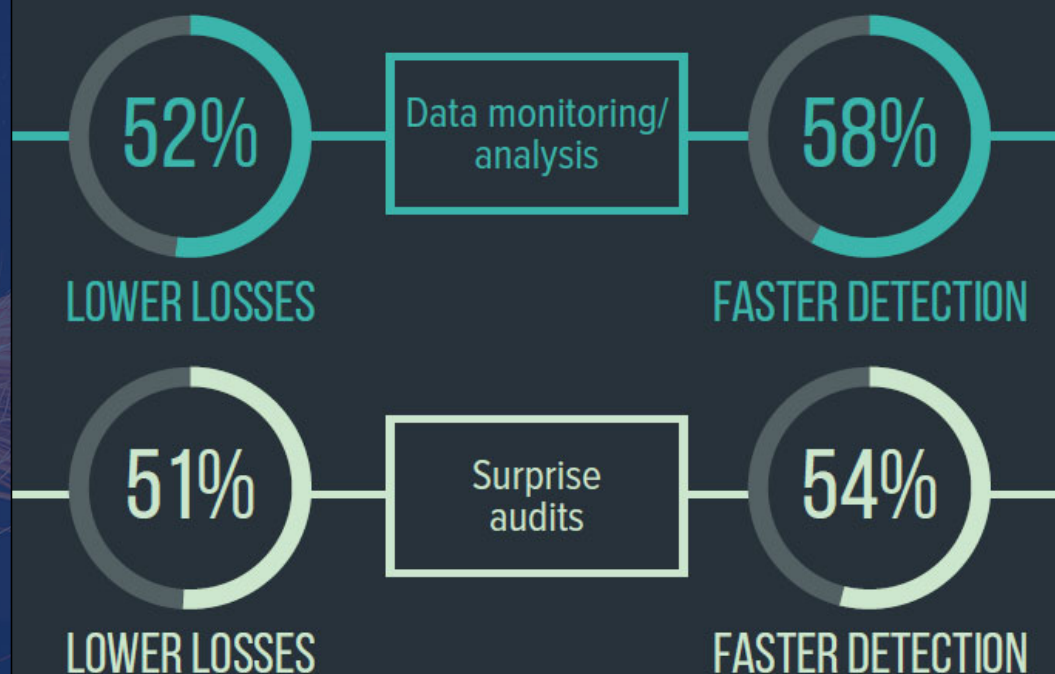
The value of being proactive





What were the most effective anti-fraud controls?

DATA MONITORING/ANALYSIS and **SURPRISE AUDITS** were correlated with the largest reductions in fraud loss and duration



Yet only 37% of victim organizations implemented these controls



Anti-fraud controls

Internal controls

INTERNAL CONTROL WEAKNESSES
WERE RESPONSIBLE FOR NEARLY
HALF OF FRAUDS



ALL 18 ANTI-FRAUD CONTROLS
ANALYZED WERE ASSOCIATED
WITH **LOWER FRAUD LOSSES**
AND **QUICKER DETECTION**





Case study – Billing & corruption





Case study takeaways

- Review payments just below the approval thresholds.
- Review multiple invoices from the same vendor. Follow up on differences.
- Being the “only customer” is a red-flag for problematic activity.
- Ensure invoices have proper supporting backup.
- Pay attention to the invoice numbers. Are you performing analytics?

Payroll schemes





Case study – Payroll scheme

- Any scheme in which an employee causes their employer to issue a payment by making false claims for compensation
 - Claim overtime for hours not worked
 - Ghost employees
 - Vacation days taken without reducing their balance



Case study - Payroll scheme

The question...

What else can you use to verify time worked?



Payroll schemes – How could this have been detected sooner?

- **Who's "checking the checker"**
 - Too burdensome to ask that question, unless you use **DATA ANALYTICS**
- **Data analytics**
 - Data analytics can be as simple as graphing your data
 - Supervisor overrides
 - Total hours by employee
 - Trending employee hours by year/time period

Are you insured?





Are you insured?

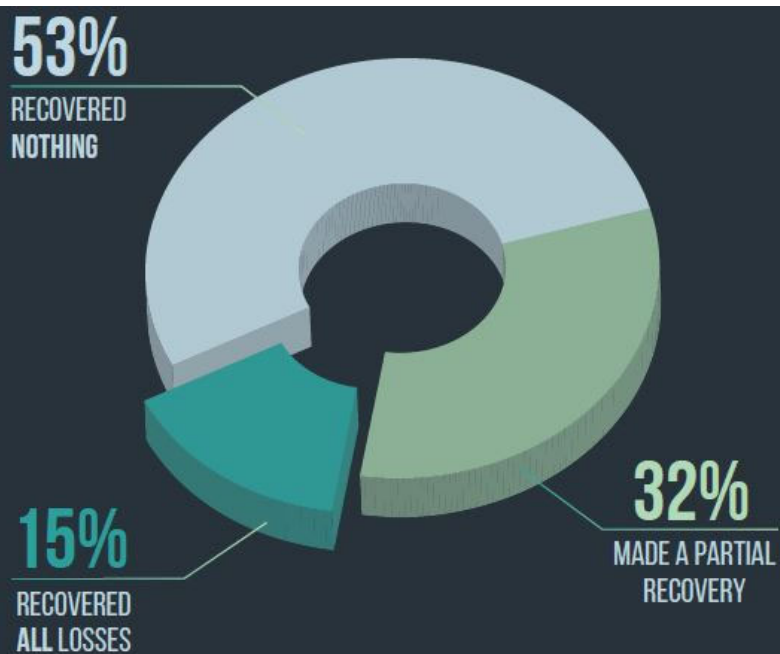
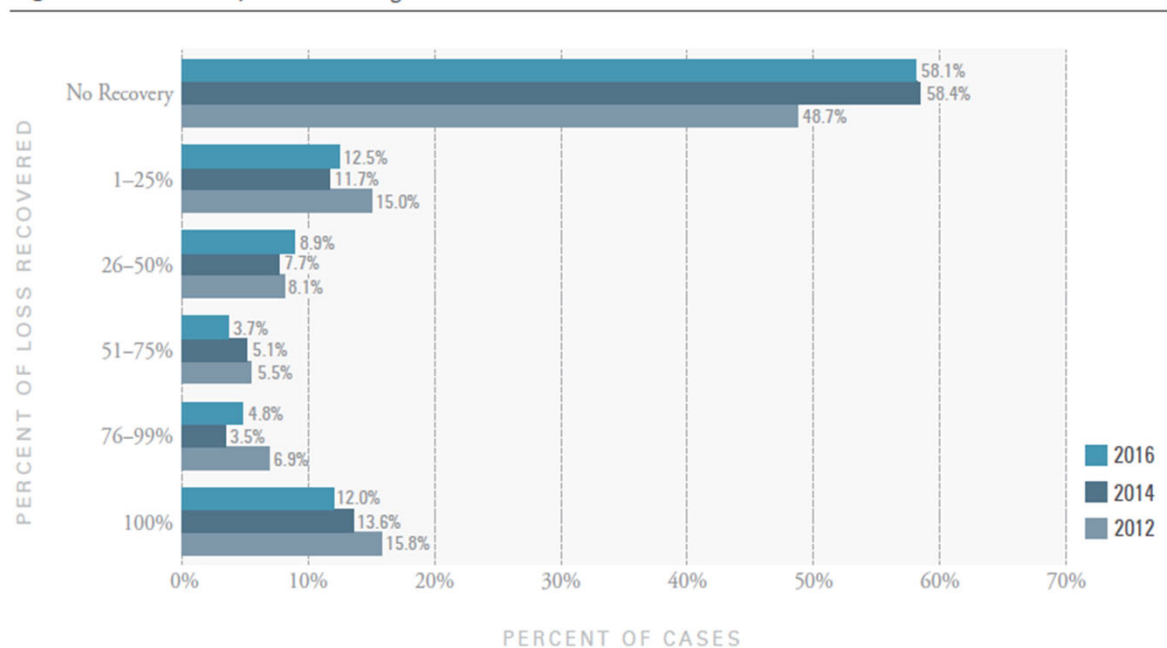


Figure 105: Recovery of Victim Organization's Losses





Are you insured?

53%

RECOVERED
NOTHING

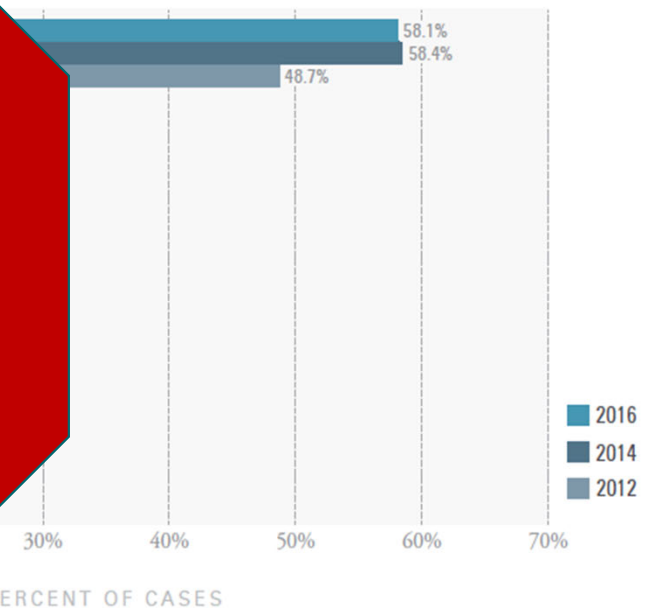
15%

RECOVERED
ALL LOSSES

STOP

As a governmental entity, it is
EXTREMELY likely you have
insurance coverage. In addition,
there are other avenues for
recovery, including potential
forfeitures of retirement
obligations.

Entity's Losses





Insurance coverage

Key items to consider

- Notification period(s)
- Proof of loss is required
 - Is self-prepared sufficient or do you need a forensic accountant?
- Some policies require a police report
- Deductible
- Claims prep coverage?
- Can be a lengthy process



Case study - Reimbursement scheme





Case study - Reimbursement scheme





Case study - Takeaways

- Think about how you can use the information available when you are missing the “ideal” information.
- You may not be able to see the answer using only one source of data; **use multiple sources of information to piece together the puzzle.**



Skimming and/or larceny





Skimming and/or larceny

What is it?

Skimming schemes are schemes in which cash is taken by the perpetrator prior to being recorded in the accounting records.

Larceny schemes are schemes in which cash is taken by the perpetrator after it is recorded in the accounting records.



Takeaway - Skimming and/or larceny

What to look for:

- Unusual activity in customer accounts
- Reversals
- Write-offs/voids
- Multiple transactions on the same day (if unusual)
- Consistently rounded transactions
- Transactions occurring at unusual times (i.e., when you're closed)



Takeaway - Skimming and/or larceny

How to look:

- Data analytics
 - Sum activity by taxpayer
 - Total payments
 - “Processor”
 - Sort activity by day of week or time of day
 - Open on the weekend?
 - Open past 6:00PM?

Case study – Skimming





Case study - Skimming

The question...

What can you do to verify missing cash?



Case study – Skimming

Takeaways

- Think outside the box
 - Not possible to recreate books and review every deposit for 20 years
- Even the most complex schemes can be simplified
 - “Show me the money!”
- Visualize your data to find trends that would otherwise not be identified



Case study – Check tampering





Case study – Check tampering scheme

What is a check tampering scheme?

- A person steals their employer's funds by intercepting, forging, or altering a check drawn on one of the organization's bank accounts
 - Steals a blank check
 - Alters an outgoing check to a vendor and deposits it into their own account



Check and payment tampering - Takeaways

Preventative controls

- Who has access to check stock?
- Who has access to “auto-signatures”? (e.g., printed with signatures, signature stamps, etc.)
- Do you have Positive Pay?
- Who has e-banking access?
- Is dual-approval needed?

Detective controls

- Evaluate sequence of cleared check numbers
- **Compare cancelled checks to check registers**
- Search for multiple checks to the same vendor on the same day



Check and payment tampering - Takeaways

Preventative controls

- Who has access to check stock?

Pro tip: Periodically review a sample of cancelled checks

Detective controls

- Evaluate sequence of cleared check numbers
- **Compare cancelled checks to check registers**
- Search for multiple checks to the same vendor on the same day



Case study – The pitfalls of a myopic investigation












Case study - The pitfalls of a myopic investigation

Takeaways

- If you have identified a fraud, ensure you've reviewed all functional areas that employee or employees had **the ability (not authority)** to influence.
- If necessary, you may need a forensic accountant to:
 - Identify additional areas at risk based on the perpetrator's job duties;
 - Validate accuracy of the internal investigation; and
 - Prepare independent report to be provided to insurance company or prosecutors.



Key takeaways

-  Stay skeptical and diligent. The current risk for fraud has significantly increased.
-  What controls exist around your “new normal” processes?
-  Review multiple invoices from the same vendor
-  Find ways to verify time reported as worked is legitimate
-  Require itemized receipts
-  Periodically review cancelled checks
-  Keep an open mind during investigations.

Any questions?



Michelle McHale-Adams, CPA/CFF, CFE

Partner, Forensic Practice Leader

Forensic & Valuation Services

616-643-4059

Michelle.McHale@plantemoran.com



Eric Conforti, CPA, CFE

Senior Manager, Public Sector Leader

Forensic & Valuation Services

248-223-3621

Eric.Conforti@plantemoran.com