

## Fraud Risk Assessment and Prevention – Opportunities to Better Serve the Public Interest



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## Can you identify the fraudster? Round 1



A B C D

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## Can you identify the fraudster?



A

Baptist Foundation – President. Convicted of fraud and racketeering and sentenced to eight years in prison. 11,000 investors lost \$580 million.

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Can you identify the fraudster?



B

Western Arizona Vocational Education District (WAVE), Arizona – Business Manager. Indicted and facing seven felony charges, including 1 count of fraudulent schemes and artifices, 5 counts of theft, and 1 count of misuse of public monies. Total alleged embezzlement amount is \$139,284.

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Can you identify the fraudster?



C

City of Dixon, Illinois – Treasurer. Guilty on several counts of fraud and was sentenced to over 19 years, nearly the 20-year maximum, in federal prison for stealing \$53.7 million.

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Can you identify the fraudster?



And this is Rita after being caught.....

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### Can you identify the fraudster?



D

Silver Creek Irrigation District, Arizona . Husband of woman who accepted stolen money from the District's accountant from which she was allegedly having sexual relations. Wow! Indicted on six felony counts including conspiracy, theft, assisting a criminal syndicate, and money laundering. Theft is estimated at \$829,400.

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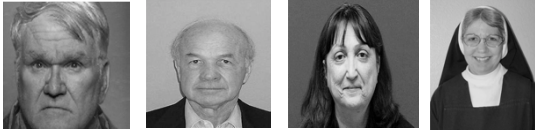
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### Can you identify the fraudster? Round 2



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D

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### Can you identify the fraudster?



A

Pinal County, Arizona. Former County Manager stole more than \$425,000 in home builder fees, fraudulently padded salary and purchased guns and other items for personal use. 6 ½ years prison, seven years probation and 1,200 hours of community service. Ordered to pay \$639,000 in restitution.

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### Can you identify the fraudster?



B

Enron. Kenneth Lay, President was convicted on six counts of securities and wire fraud for which he had been tried, and could have faced a total sentence of up to 45 years in prison had he not passed away. Enron was one of the largest corporate scandals with losses totaling an estimated \$54 billion.

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### Can you identify the fraudster?



C

City of Kingman. Interim finance director and former budget analyst. Convicted of all four counts of felony theft for embezzling \$1.1 million. Sentenced to over 9 years in prison.

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### Can you identify the fraudster?



D

Come on really?!

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### Can you identify the fraudster?



Well, maybe not her but St. James Catholic School officials recently told parents that the two nuns above had stolen about \$500,000 from the school. The school said the two women, reportedly best friends, used the money for trips and casino visits.

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### So who are the fraudsters?

- Educated and non-educated individuals
  - Can depend on size of organization
- Trusted individuals
  - Partners, managers, etc.
- Age range 20s - 50s
- Repeat offenders
  - May not be....

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### Why Should We Care?

- ▶ Negative effect on peoples' lives.
- ▶ Cost of compliance.
- ▶ Professional reputation - social responsibility.
- ▶ Time to raise the bar.
- ▶ Often preventable.

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## Update on Fraud

- ▶ 2018 Report to the Nations on Occupational Fraud and Abuse.

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

- ▶ Issued biennially since 2002.
- ▶ 2018 report contains an analysis of 2,690 cases in more than 125 countries.

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## Where?

- ▶ United States – 48%.
- ▶ Sub-Saharan Africa – 13%.
- ▶ Asia-Pacific – 11%.
- ▶ Everywhere else – 28%.

\* Percentages are based on the number of reported cases.

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## What?

- ▶ Asset misappropriation – 89% of cases in 2018.
- ▶ Corruption – 38%.
- ▶ Financial statement fraud – 10%.

Note: The percentages do not total 100% because of overlap in the types of fraud.

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## How Much?

- ▶ Total worldwide loss estimated at \$4.0 trillion per year.
- ▶ How much is \$4.0 trillion?
  - Entire FY 2017 U.S. budget was approximately \$4.0 trillion.

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## How Much? – Continued

### Median losses (2014)

- ▶ Asset misappropriation – \$114k.
- ▶ Corruption – \$250k.
- ▶ Financial statement fraud – \$800,000.\*

\* Down from \$1 million in 2014.

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## Consequences of Fraud



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## Who is Affected?

Who is affected the most in terms of frequency?

- A. Public companies.
- B. Government agencies.
- C. Businesses with more than 100 employees.
- D. Nonprofits.
- E. None of the above.

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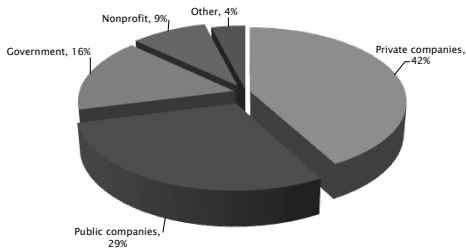
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## Who is Affected? - Continued

By Sector



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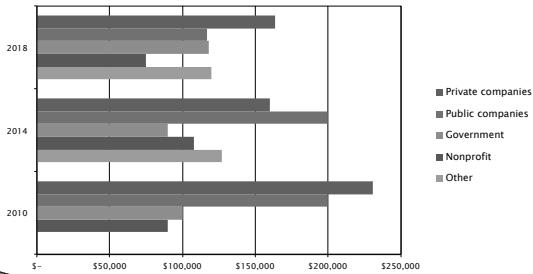
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## Who is Affected? - Continued

Median Losses



\*Amounts reported are median losses.

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### How is it Detected?

- 40% of fraud was detected by tips, but...
- Only 63% of victim organizations had a hotline mechanism in place.

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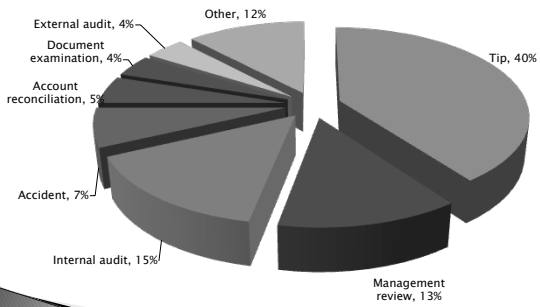
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### How is it Detected? – Continued



Note: Only 1% came from confession!

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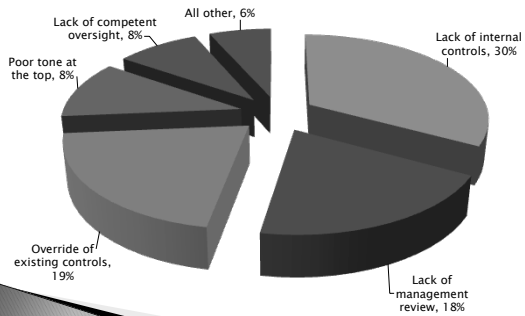
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### Primary Causes?



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**Who?**

**Positions**

- ▶ Employees – 44%
- ▶ Managers – 34%
- ▶ Owner/Executive – 19%
- ▶ Other – 3%

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**Who? – Continued**

**Age**

- ▶ 31–35 – 15%
- ▶ 36–40 – 19%
- ▶ 41–45 – 19%
- ▶ 46–50 – 14%

\* However, the largest losses are from those that are over 50...

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**Who? – Continued**

**Gender**

- ▶ On average worldwide, 69% is male, however, in the U.S. it is 58%.
- ▶ Generally, males engage more in financial statement fraud and corruption than asset misappropriation.

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**Who? - Continued**

**Education**

- ▶ Post graduate - \$230k median loss
- ▶ University - \$160k
- ▶ Some university \$130k
- ▶ High school graduate or less - \$75k

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**Who? - Continued**

**In What Department Does Fraud Occur the Most?**

- A. Executive/upper management
- B. Operations
- C. Accounting
- D. Sales
- E. None of the above

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**Who? - Continued**

**In What Department Does Fraud Occur the Most?**

It is a tie for accounting and operations at 14%.

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## Who? - Continued

### Background of a fraudster:

- ▶ Criminal – 89% never previously charged or convicted.
- ▶ Employment – 85% never previously punished or terminated.

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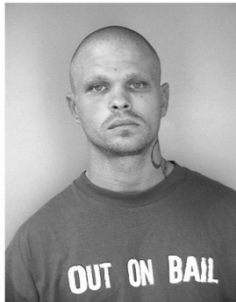
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## So does a fraudster look like this?



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## A fraudster most likely looks like this.....



And I really hope not this guy because he is Bruce Dorris, J.D., CFE, CPA  
President and CEO, Association of Certified Fraud Examiners!

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### Fraud Red Flags

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### Fraud Red Flags-Continued

- ▶ Living beyond means - 41% of cases surveyed
- ▶ Financial difficulties - 29%
- ▶ Unusually close association with vendor/customer - 20%
- ▶ Control issues, unwillingness to share duties - 15%
- ▶ Divorce/family problems - 14%
- ▶ Wheeler-Dealer attitude - 13%

Note: These red flags are not mutually exclusive.

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### The Case of the New Mustang.

An accounting manager with a shiny new Mustang ultimately found to have paid for it using \$200k of stolen money.

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**What can you do?**

Where is the risk?

- (1) Theft
- (2) Corruption, or
- (3) Financial statement fraud?

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**What can you do? – Continued**

For fire districts, it is oftentimes theft.  
But theft of what?

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**What can you do? – Continued**

Follow the cash....

- ▶ What bank accounts do you have?
- ▶ Who are the signers?
- ▶ Where are the check stocks kept?
- ▶ Who collects cash, makes deposits and reconciles the bank accounts?
- ▶ How many credit cards do you have?  
Are they reviewed?

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## What can you do? – Continued

- ▶ Why are my auditors asking me about related party transactions?
- ▶ Why are my auditors asking me about equipment and supplies?
- ▶ Why are my auditors asking my employees all of those darn fraud questions?
- ▶ Why is my auditor beating me up regarding internal controls?

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## What can you do? – Continued

The bottom line: Fraud Happens! However, you can do the following:

- 1) Tone at the Top. Board members, please pay attention.
- 2) Management review.
- 3) Understand and look for the fraud risk signs.
- 4) Account reconciliations.
- 5) Establish and follow policies and procedures.
- 6) Understand the audit process. When your auditor raises a concern about internal controls, take remedial action.

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## Questions?

Jay Parke, CPA, CGFM

[www.wa-cpas.com](http://www.wa-cpas.com)



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