

Fraud Overview



Agenda

- Fraud Overview
- Fraud Triangle and Red Flags
- Fraud Prevention
- Case Studies
- Our Commitment –Spring ISD

Source: ACFE &

 **Proud To Be
Boring Accountants.**

Fraud Overview

What Is Fraud?



- “Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain. Regardless of culture, ethnicity, religion, or other factors, certain individuals will be motivated to commit fraud”

2014 ACFE Report To The Nations



- Organizations lose approximately 5% of revenue due to fraud
 1. Asset Misappropriation – 85.4% with median loss of \$130,000
 2. Corruption – 36.8% with median loss of \$200,000
 3. Financial Statements – 9.0% with median of \$1 million
- Fraud duration 18 months
- Men (66.8%) vs. Women (33.2%)
- 40% of cases were detected via Tip /Hotline

Source: ACFE, IIA &

Fraud Overview

Types of Fraud

The following illustrates the types of frauds an organization might encounter. This listing is not meant to be all inclusive but to provide a starting point for an organization to identify which areas are vulnerable to fraud.

- **Embezzlement**

1. Unauthorized withdrawals
2. Unauthorized disbursements
3. Paying personal expenses from bank accounts
4. Unrecorded cash payments
5. Theft of physical property

- **Receipt of bribes, kickbacks, and gratuities**

1. Over billing
2. Illegal payments
3. Gifts
4. Travel
5. Entertainment
6. Loans
7. Credit card payments for personal items

- **Cash theft**

1. Skimming
2. Theft of checks received
3. Check for currency substitution
4. Theft of cash
5. Deposits in transit

- **Fraudulent disbursements**

1. False refunds
2. False voids
3. Small disbursements
4. Check tampering
5. Personal purchases
6. Returning merchandise for cash

- **Payroll fraud**

1. Ghost employees
2. Falsified hours and salary

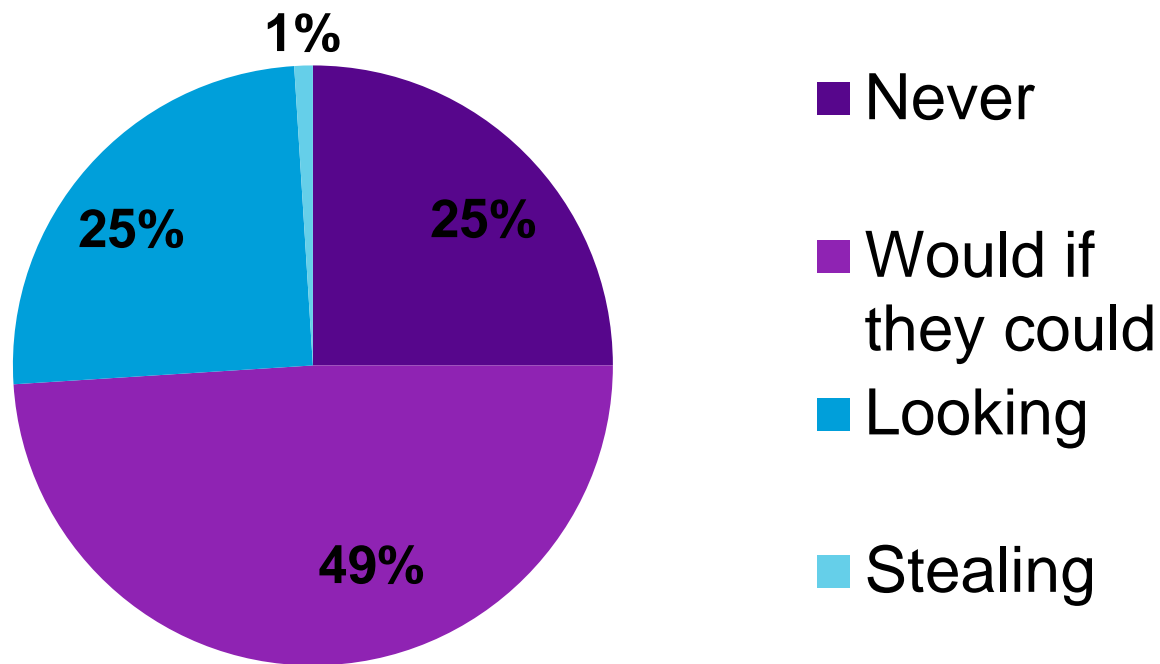
- **Inventory**

1. Misuse of inventory
2. Theft of inventory
3. Purchasing and receiving falsification
4. False shipments
5. Concealing inventory

Source: IIA &

Fraud Overview

- Internal controls are only as good as the personnel performing the activities.

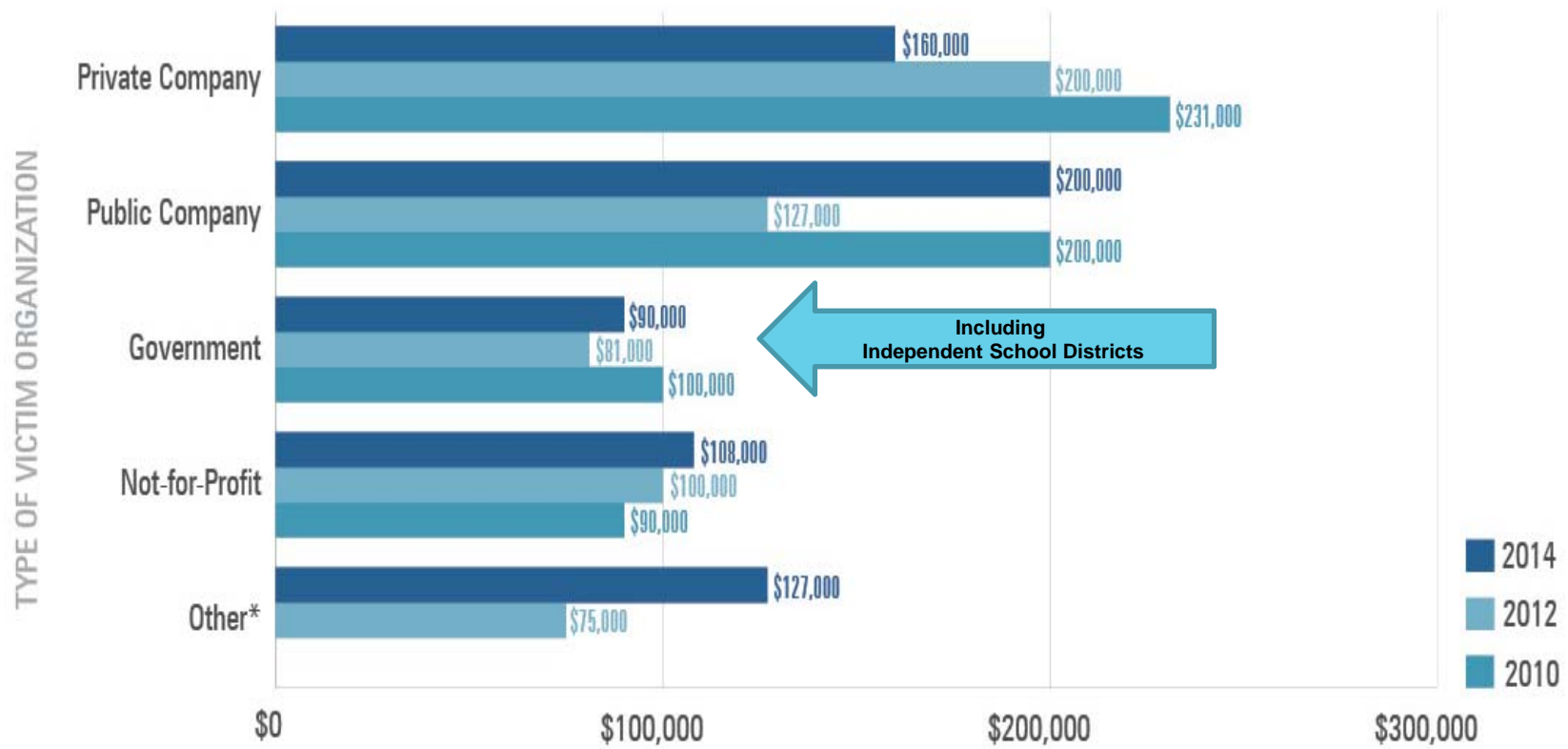


Source: ACFE &

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Fraud Overview

Figure 18: Type of Victim Organization — Median Loss



***Other* category was not included in the 2010 Report.*


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Source: ACFE &

MGO Proud To Be Boring Accountants:

Fraud Overview

Figure 24: Frequency of Schemes Based on Industry



Industry/Scheme	Banking and Financial Services	Government and Public Administration	Manufacturing	Health Care	Education	Retail	Insurance	Oil and Gas	Transportation and Warehousing	Services (Other)	Construction	Religious, Charitable or Social Services
Cases	244	141	116	100	80	77	62	49	48	45	43	40
Billing	5.7%	19.1%	22.4%	29.0%	33.8%	10.4%	17.7%	24.5%	33.3%	28.9%	34.9%	32.5%
Cash Larceny	13.1%	10.6%	6.0%	12.0%	6.3%	15.6%	6.5%	2.0%	2.1%	11.1%	14.0%	7.5%
Cash on Hand	18.9%	12.1%	7.8%	16.0%	16.3%	22.1%	1.6%	2.0%	10.4%	11.1%	7.0%	12.5%
Check Tampering	5.7%	5.7%	7.8%	21.0%	10.0%	7.8%	4.8%	4.1%	20.8%	17.8%	27.9%	35.0%
Corruption	37.3%	36.2%	54.3%	37.0%	36.3%	22.1%	33.9%	57.1%	29.2%	35.6%	46.5%	30.0%
Expense Reimbursements	4.1%	12.8%	7.8%	23.0%	31.3%	3.9%	4.8%	14.3%	14.6%	17.8%	27.9%	32.5%
Financial Statement Fraud	10.2%	5.0%	13.8%	8.0%	10.0%	6.5%	3.2%	12.2%	10.4%	6.7%	11.6%	7.5%
Non-Cash	13.1%	17.7%	34.5%	12.0%	12.5%	33.8%	12.9%	16.3%	33.3%	17.8%	20.9%	15.0%
Payroll	5.3%	15.6%	8.6%	15.0%	16.3%	5.2%	8.1%	6.1%	16.7%	6.7%	18.6%	20.0%
Register Disbursements	2.5%	0.7%	2.6%	3.0%	5.0%	13.0%	0.0%	0.0%	4.2%	6.7%	2.3%	2.5%
Skimming Fundraisers	5.7%	11.3%	4.3%	18.0%	20.0%	18.2%	22.6%	2.0%	6.3%	33.3%	7.0%	12.5%

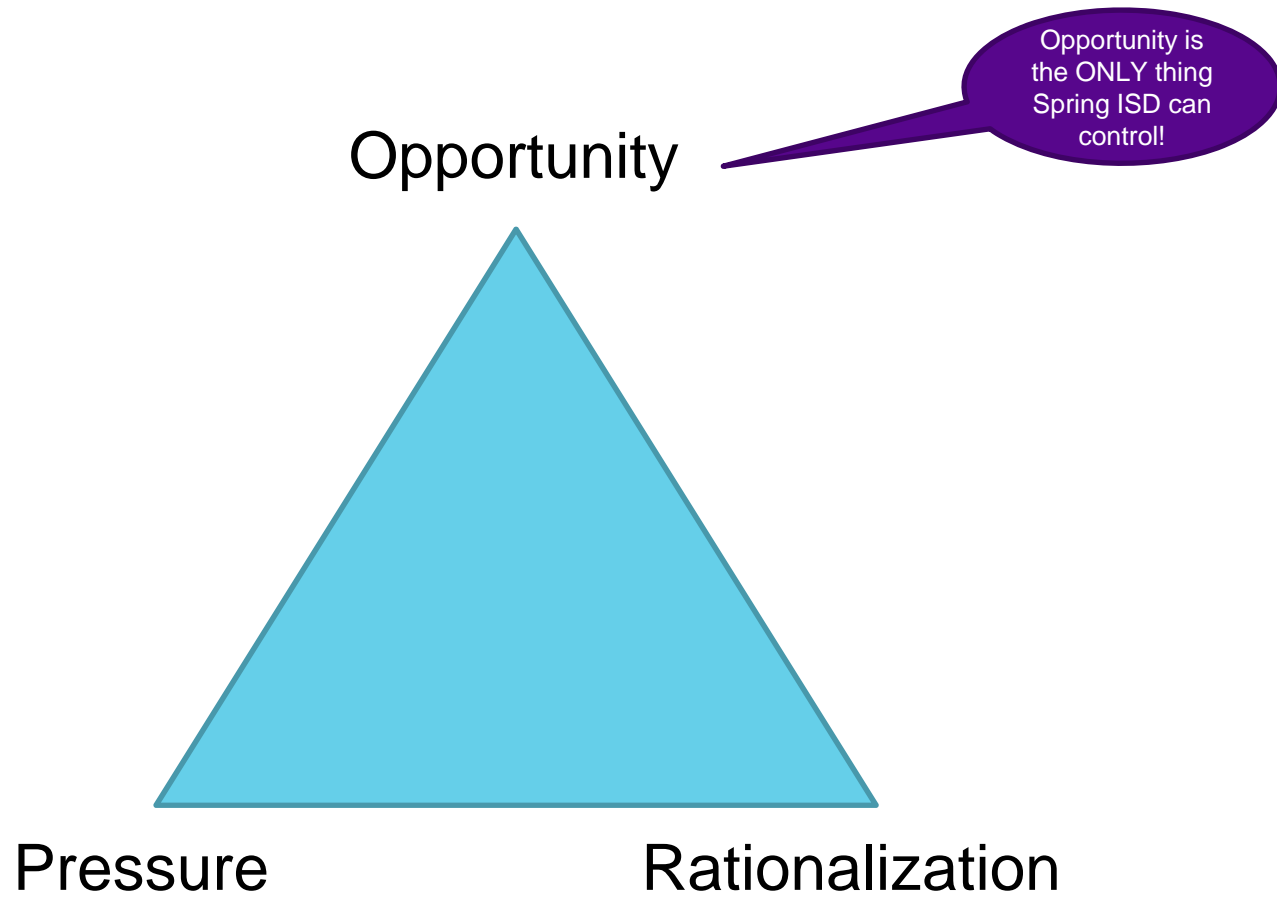


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Source: ACFE &

Fraud Triangle and Red Flags

Fraud Triangle and Red Flags



Source: ACFE &

Fraud Triangle and Red Flags

Opportunity:

- Personally Created Opportunities:
 1. Familiarity with operations (including cover-up capabilities)
 2. Close association with suppliers, vendors, and other key people (22%)
 3. Unwillingness to share duties (21%)
- Organizational Characteristics:
 1. Weak internal controls
 2. Absence of periodic rotation in job duties
 3. Constantly operating under a crisis environment
 4. Little attention to details
 5. Poor morale
- Opportunity is the **ONLY** thing Spring ISD can control!

Source: ACFE &

Fraud Triangle and Red Flags

Pressure (Albrecht book)*

- Personal financial factors that may lead to fraud:
 1. Financial difficulties (33%)
 - a. High personal debts or financial losses
 - b. Inadequate income
 2. Living beyond one's means (44%)
- Personal habits that may lead to fraud:
 1. Extensive stock market or other types of speculation (starting a new business)
 2. Extensive gambling
 3. Illicit affairs
 4. Excessive use of alcohol or drugs (12%)

*Steve Albrecht, Fraud Examination

Source: ACFE &

Fraud Triangle and Red Flags

Rationalization:

- How can you be proactive and know who will rationalize fraudulent behavior?
- Embezzlers don't fit the criminal stereotypes; they appear to be trustworthy, sincere, likeable, sociable, etc.
- Personal Emotions that may lead to fraud:
 1. Strong community or social expectations to succeed (6%)
 2. Perception of being treated unfairly by the organization (9%)
 3. Resentment towards superiors
 4. Frustration with job
 5. Insatiable desire for self-enrichment or personal gain
 6. Wheeler – dealer attitude (18%)

Source: ACFE &

Fraud Prevention

Fraud Prevention

- Employee support programs – can help alleviate pressure
- Password controls
- Fraudulent activity to look out for:
 1. Fraudulent vendors usually show a very high, year over year growth
 2. Employee using a company purchasing card for personal expenses, often has a geometric growth in total purchases
 3. Employee with fraudulent overtime scheme shows high growth in hourly totals, sometimes to impossible levels
- Fraud Hotline (Not Frog Hotline?)
- Fraud awareness training: reminding people that fraud is real and could be happening. A co-worker living beyond means is a classic red flag. (Not a silver bullet, just another opportunity to raise suspicion.)

Source: ACFE &

Case Studies

Case Studies

- A former Roosevelt Elementary School District employee was arraigned after state auditors claimed she used her position as a bookkeeper to embezzle nearly \$31,000 in 2013.

According to a report from the Arizona Office of the Auditor General released, an investigation found Kelly Cozad, 50, issued unauthorized checks to herself and a friend that were intended to be deposited into a district bank account that held health insurance subsidies for former employees.

Cozad was indicted in August on 10 felony counts including theft, fraud and five counts of forgery, according to court records. Neville McCulloch, 51, whom authorities accuse of being Cozad's accomplice, was indicted on one count of theft.

(Source: <http://www.azcentral.com/story/news/local/phoenix/2015/09/02/report-roosevelt-elementary-district-bookkeeper-embezzled/71596482/>)

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- Chicago Public Schools employees engaged in improper political activity, stole kids' museum passes to sell online, smoked marijuana with students, and stole money meant for cheerleader uniforms, according to a year-long review.

The school system's inspector general released its [annual report](#). The report offers a summary of investigations conducted by the inspector general in fiscal year 2015, which included the uncovering of a [multi-million-dollar fraudulent kickback scheme](#) by Barbara Byrd-Bennett, the school system's CEO

(Source: <http://freebeacon.com/issues/chicago-public-school-employees-engaged-in-fraud-illegal-activity/>)

BY: [Elizabeth Harrington](#)

January 4, 2016 1:45 pm



Source: ACFE &

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Our Commitment

Our Commitment

- Spring ISD is committed to an environment where open, honest communications are the expectation, not the exception.
- We recognize, however, that there may be circumstances when you are not comfortable reporting the issue in this manner. It is for such circumstances that we have partnered with NAVEX Global Ethics Point.

To make a report:

1. Online go to www.springisd.ethicspoint.com

2. By Phone - Toll-free phone number
1-844-297-6341

(available in different languages, Spanish, Vietnamese, etc.)

Source: ACFE &