



Office of Operations 2009 Fall Conference



Navigating Uncertain Times



Fraud Red Flags

Linda Giovannone

Amy Klos

October 21-22, 2009

FRAUD



What is Fraud?

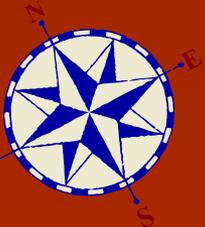
➤ Misstatement

➤ Mistake v Fraud

➤ Knowledge of falsehood/intent

➤ Reliance

➤ Damage



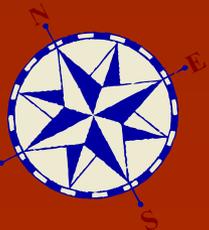
What is Fraud?

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.



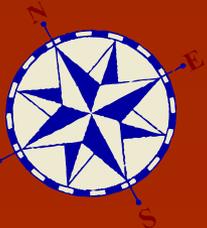
What is Occupational Fraud?

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.



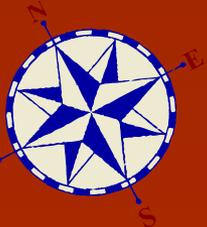
How Long Does Fraud Go Undetected?

A study conducted by the Association of Certified Fraud Examiners (ACFE) consisting of 959 cases of occupational fraud found the typical fraud continued for **two years** before being detected.



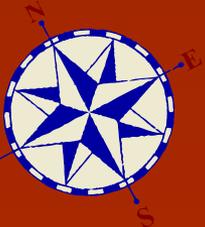
How Much Is Lost?

- ↳ 7% of annual revenues
- ↳ Median loss of \$175,000
 - ↳ \$200,000 for small businesses
- ↳ Over 25% had losses of at least \$1 million



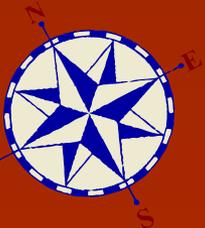
How Does It Happen?

- ↳ Lack of adequate internal controls
- ↳ Lack of management review
- ↳ Override of existing controls

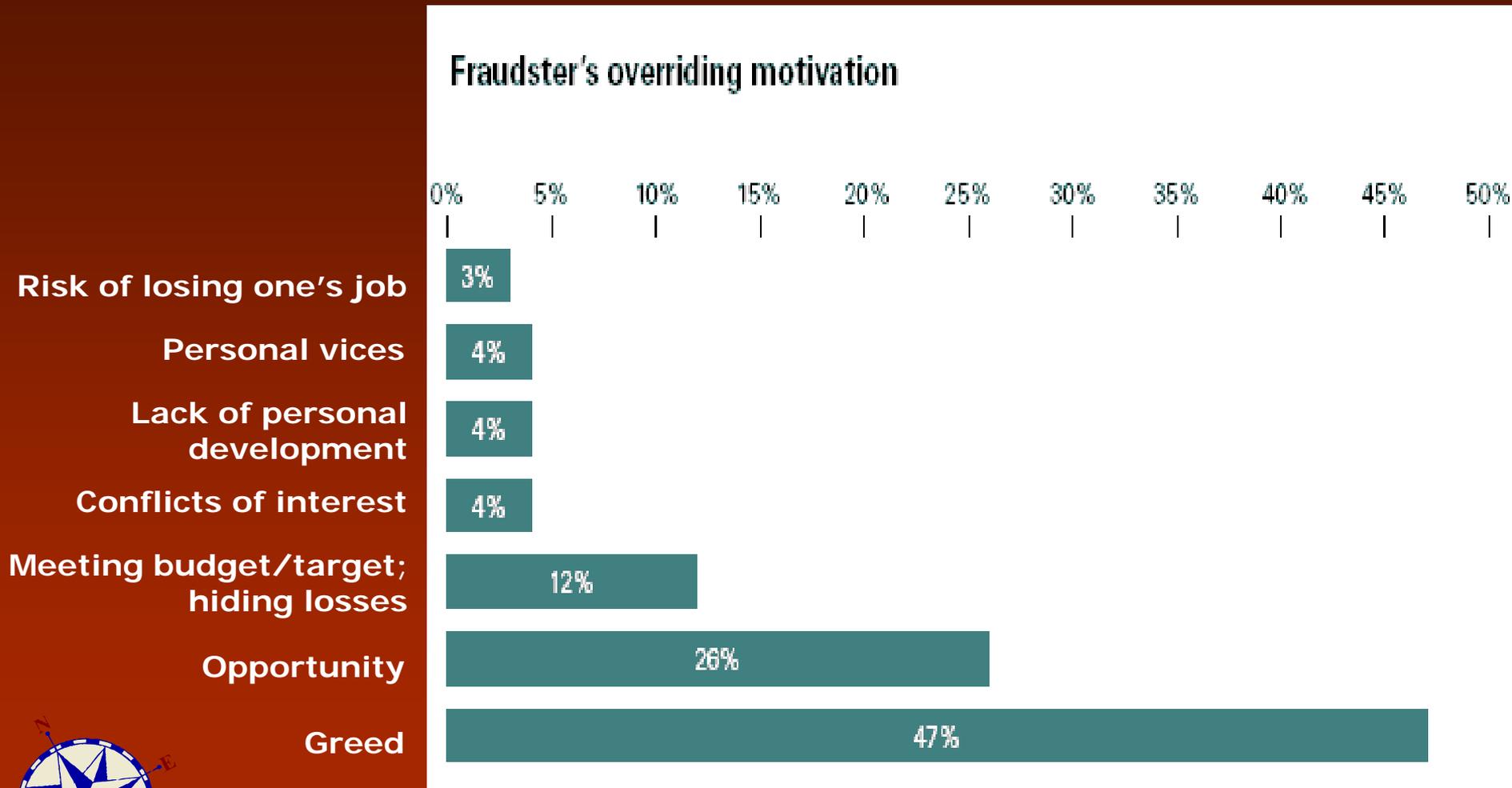


Controls

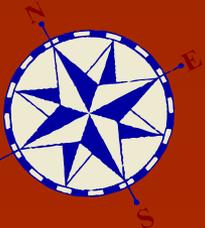
- ☞ Control Environment
- ☞ Risk Assessment
- ☞ Control Activities
- ☞ Information and Communication
- ☞ Monitoring



Fraudster's Motivation



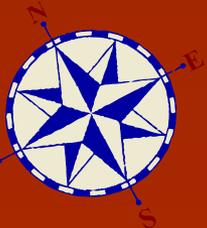
Source: KPMG Profile of a Fraudster Survey 2007



Red Flags

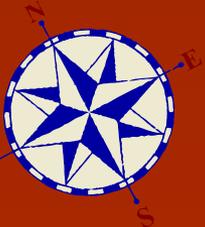
 A warning or sense that something isn't right

 Should lead you to take a closer look at the transaction



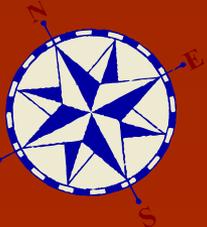
Personal Flags

- Weak ethics
- Wheeler-dealer personality
- Lack of stability
- Strong desire to beat the system
- Significant behavior changes
- Inadequate income for lifestyle



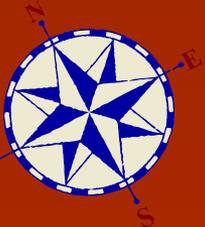
Personal Flags

- ☞ Highly material personal values
- ☞ Success equated with \$
- ☞ Highly self-centered
- ☞ Conspicuous consumers
- ☞ Careless with facts
- ☞ Hostile
- ☞ Exempt from accountability

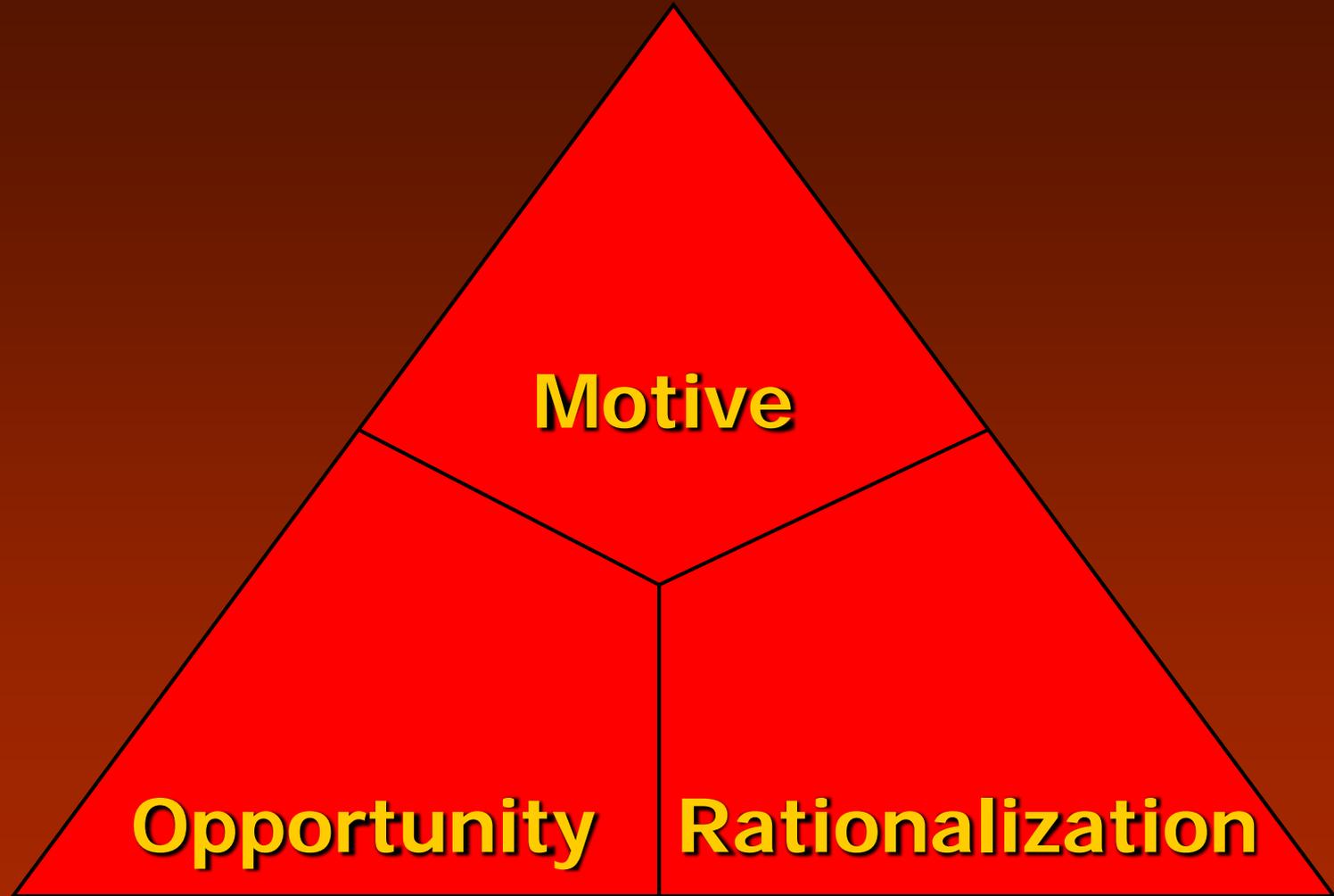


Personal Flags

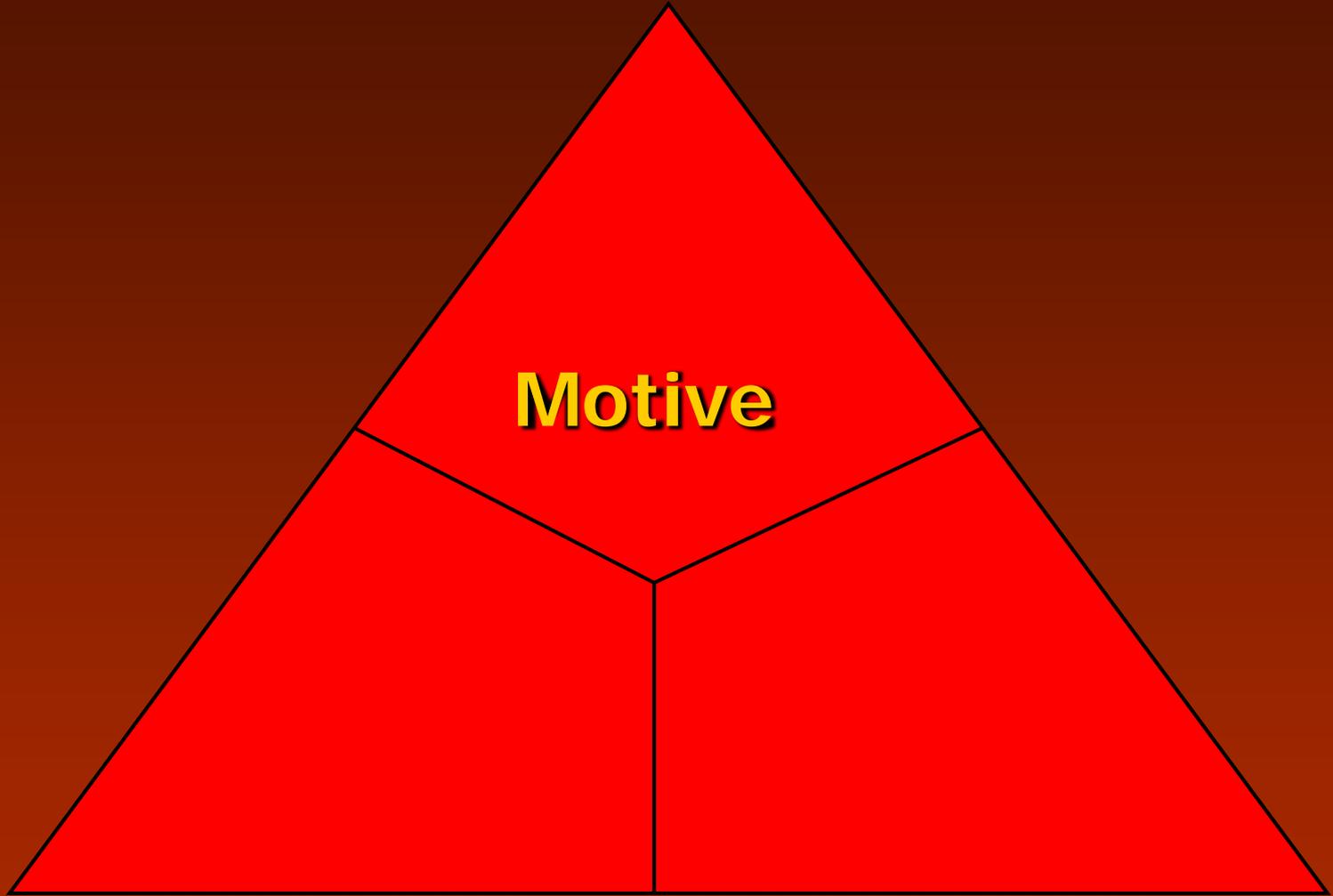
- ⌘ Demand loyalty
- ⌘ Have few real friends
- ⌘ Inconsistent, vague or implausible responses
- ⌘ Schmoozer
- ⌘ Employee has outside business



How Does Fraud Happen?



Motive

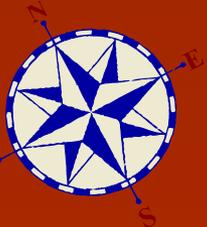


Motive



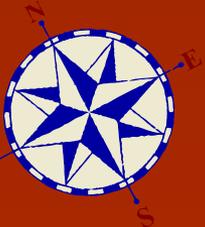
Motive Flags

- ✶ High debt
- ✶ Significant financial losses
- ✶ Excessive alcohol, drugs or gambling
- ✶ Extramarital affair
- ✶ Perceived organizational inequities
- ✶ Job frustration or resentment

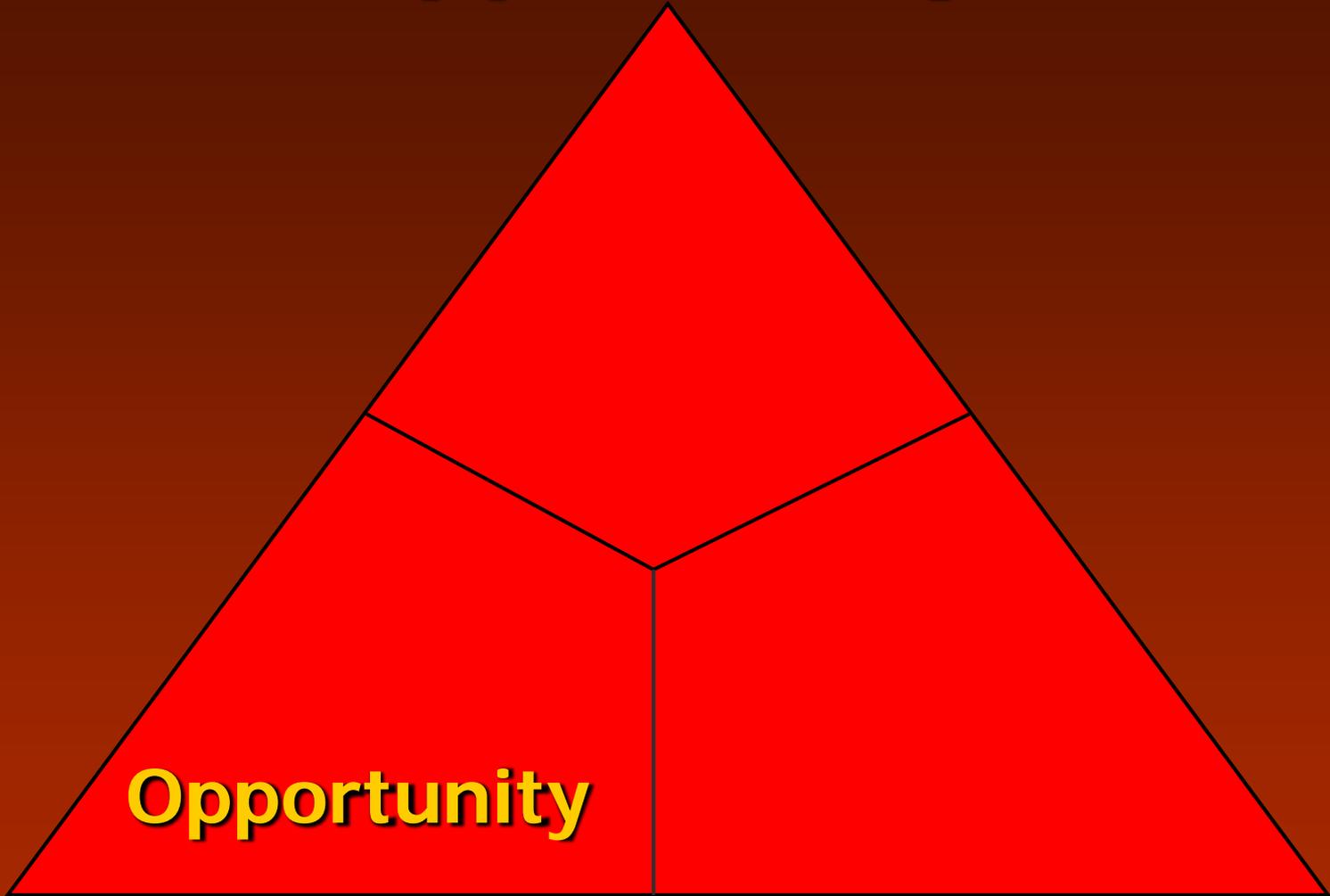


Motive Flags

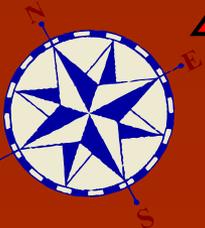
- Peer group pressures
- Fear loss of status
- Single parent
- College tuition
- Sick family member



Opportunity

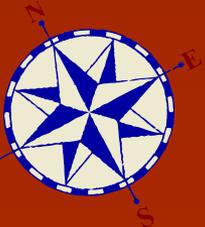


Opportunity



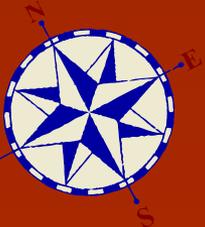
Opportunity Flags

- ☞ Familiarity with operations
- ☞ Ability to override controls
- ☞ No periodic rotation of key employees
- ☞ No uniform personnel policies



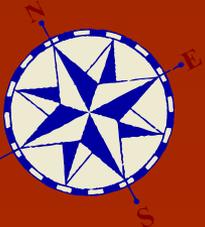
Opportunity Flags

- ✎ Not independently verifying delivery or pricing
- ✎ Lack of segregation of responsibilities
- ✎ Organizations with no fraud training program
- ✎ Dishonest or dominant management



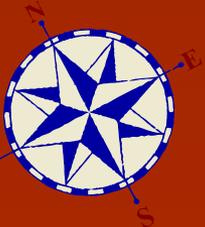
Opportunity Flags

- Management does not emphasize the role of strong internal controls
- Management does not prosecute or punish fraud perpetrators
- Lack of independence of the Internal Audit function
- Operating in crisis mode

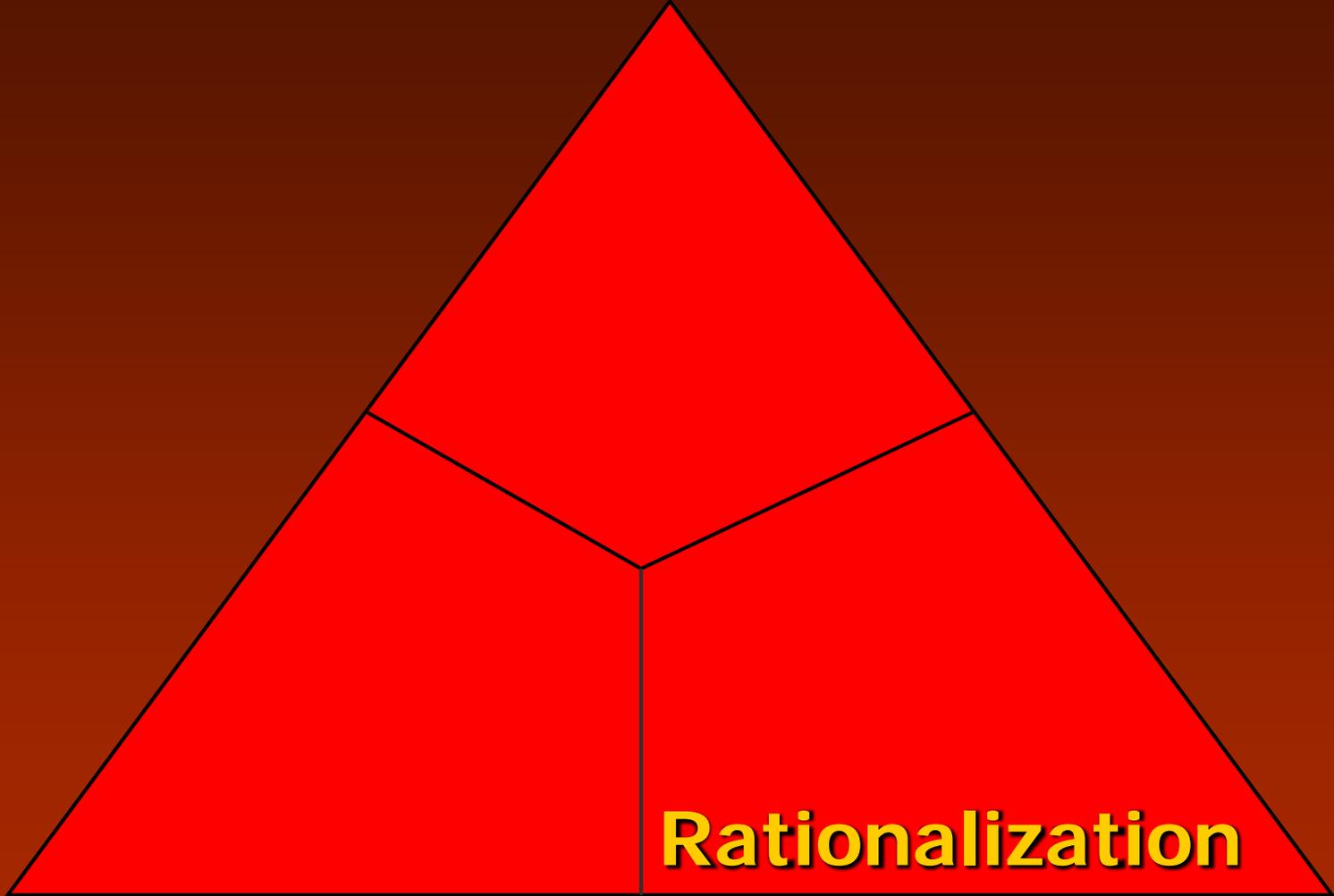


Opportunity Flags

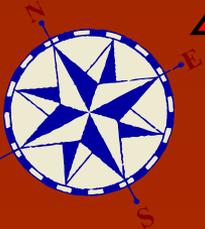
- Close association with vendors
- Vendor invoice going anywhere other than accounts payable
- No documents to support invoices
- Not independently verifying delivery or pricing



Rationalization

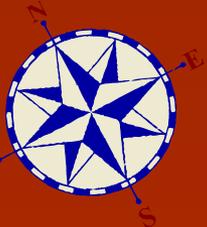


Rationalization

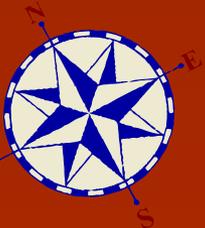


Rationalization Flags

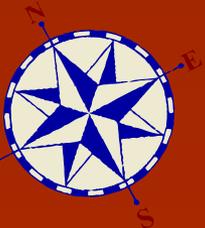
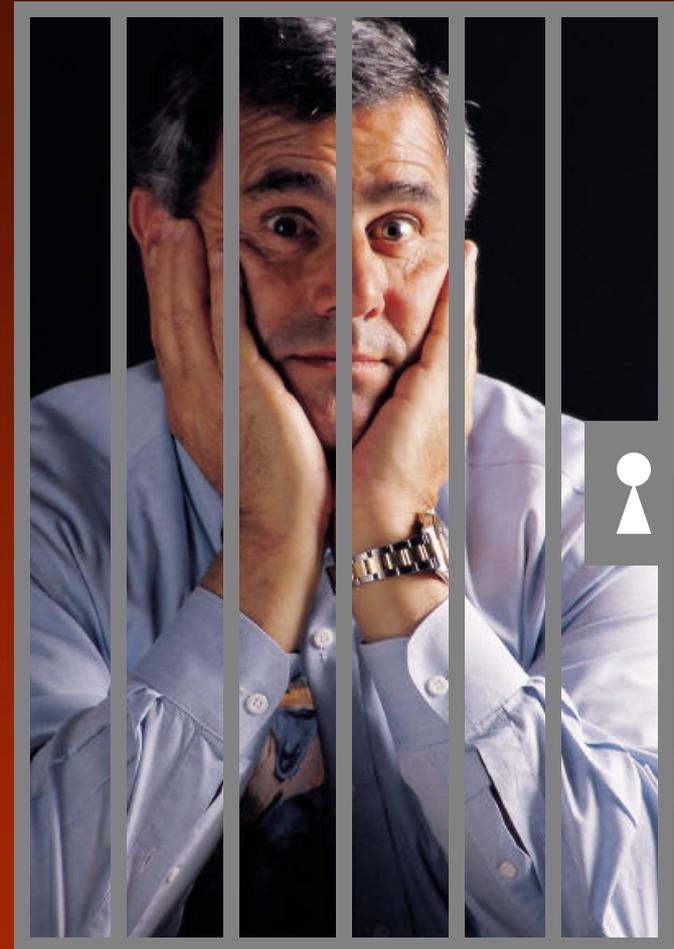
- ☞ They owe me
- ☞ I'm overworked
- ☞ I do the work of two people
- ☞ They'll never miss it
- ☞ I'll just borrow it; I'll pay it back
- ☞ I'm not really hurting anyone
- ☞ Everyone is a little dishonest



Profile of Occupational Fraudster

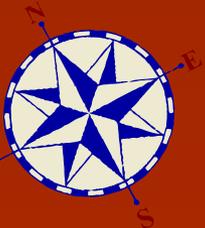


- R Race
- R Gender
- R Age
- R Education
- R Criminal History
- R Occupation
- R Tenure
- R Salary



Fraudster Details

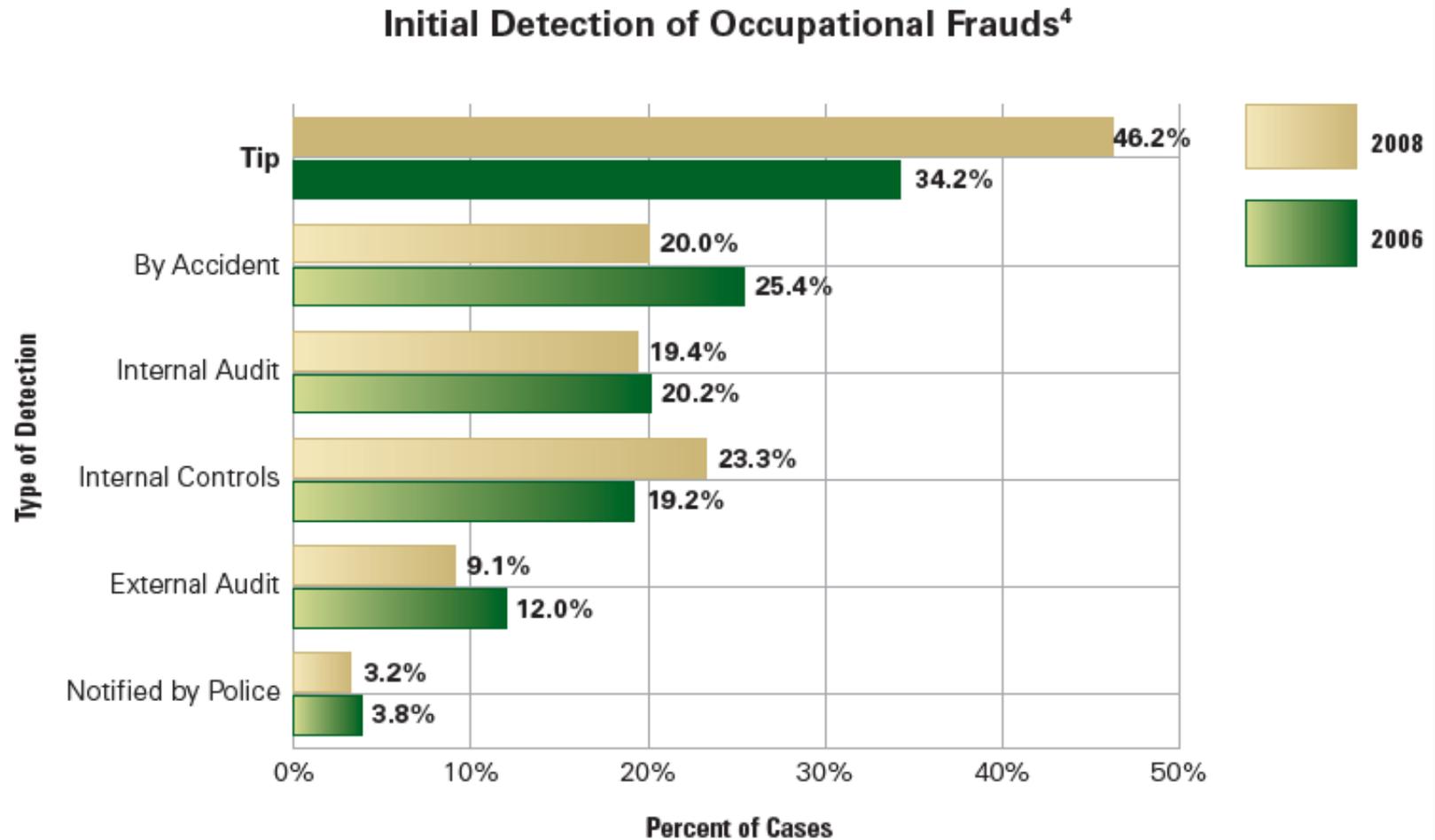
In 91 percent of profiles the perpetrators did not leave it at one single fraudulent act, but committed repeated acts of fraud.



Fraud Detection

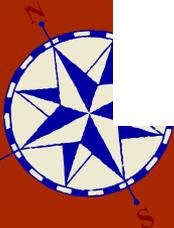


Fraud Detected By:

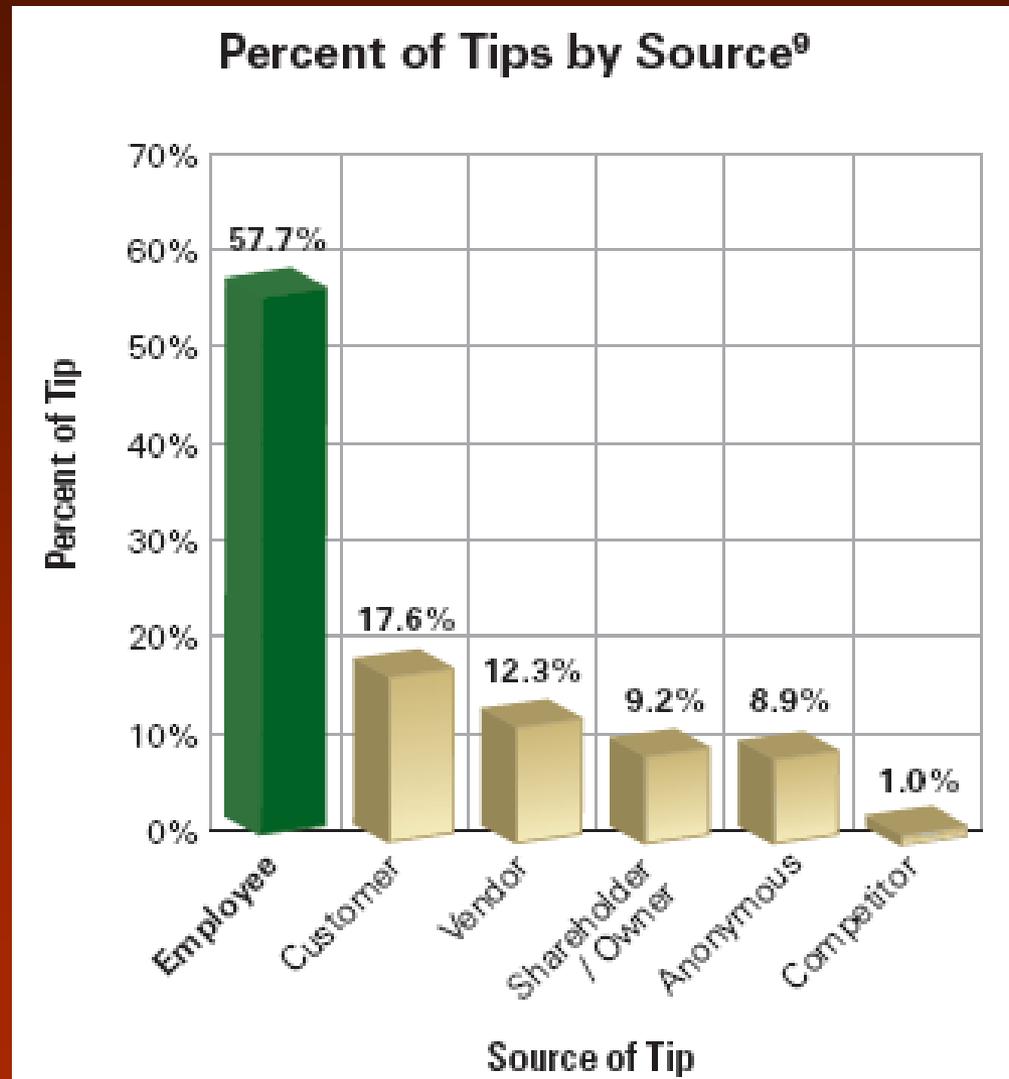


⁴The sum of percentages in this chart exceeds 100 percent because in some cases respondents identified more than one detection method.

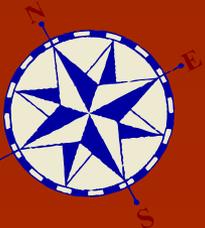
Source: 2008 Report to the Nation on Occupational Fraud and Abuse



Source of Tips



Source: 2008 Report to the Nation on Occupational Fraud & Abuse



Exercise

Invoice Review



Raymond Michael, Ltd.

188 Hayward Street

Yonkers, NY 10704

Phone: 914-969-2466 Fax: 914-969-1423

Toll-Free: 800-922-0599

PLAYGROUND SALES - CONSULTATIONS
INSTALLATIONS - FULLY INSURED

DATE: 1/15/04

TERMS: 50% Dep./Bal. on Completion

MISC: CLIENT MUST UNLOAD TRUCK!

PROPOSAL & ORDER FORM

ORDER #:	03-3850	CUST. P.O.:		CODE:	D	SHIP VIA:	Ward
S O L D T O				S H I P T O	SAME		
	QTY.	PROD. #	DESCRIPTION		UNIT PRICE	TOTAL	
1	Custom	REVISED PROPOSAL & ORDER SHOWING DEPOSIT Custom Explorer Composite Structure with Yellow, Vinyl Coated, Punched Steel Decks (Choice of Colors) (1,008 lbs.) SURFACE MOUNT 1 Man 1 Day 684 Sq. Ft. of 1-1/2" Poured-in-Place Safety Surfacing 50% Black & 50% Color (Delivered & installed @ \$9.20 a Sq. Ft.)				\$7,731.00	
						\$600.00	
						\$7,293.00	
ORDERS MUST BE SIGNED AND DATED*							
Purchase Authorized By _____ Date _____ Signing of this Proposal/Order Form constitutes approval of the purchase of goods and/or services itemized herein.						SUBTOTAL \$15,624.00	
						PLUS INSTALLATION (1 Man 1 Day)	
						PLUS FREIGHT (1,008 lbs.)	
						SALES TAX ON FREIGHT & EQUIP. (IF APPLICABLE)	
						NO CHARGE	
						LOCAL _____ % X	
						TOTAL \$15,624.00	
						LESS DEPOSIT PAID on 12/19/03 \$7872.00	
						BALANCE PAID on 1/15/04 \$7812.00	

TERMS: All merchandise is F.O.B. shipping point. Net 30 days from date of invoice to established accounts. All others by deposit with balance due on a C.O.D. basis or net 10 days at the discretion of the company.

"Playgrounds of Distinction"

Raymond Michael, Ltd.

188 Hayward Street

Yonkers, NY 10704

Phone: 914-969-2466 Fax: 914-969-1423

Toll-Free: 800-922-0599

PLAYGROUND SALES - CONSULTATIONS
INSTALLATIONS - FULLY INSURED

DATE: 1/15/04

TERMS: 50% Dep./Bal. on Completion

MISC: CLIENT MUST UNLOAD TRUCK!

➔ **PROPOSAL & ORDER FORM**

ORDER #:	03-3850	CUST. P.O.:		CODE:	D	SHIP VIA:	Ward
S O L D T O				S H I P T O	SAME		
	QTY.	PROD. #	DESCRIPTION		UNIT PRICE	TOTAL	
1	Custom	REVISED PROPOSAL & ORDER SHOWING DEPOSIT Custom Explorer Composite Structure with Yellow, Vinyl Coated, Powdered Steel Decks (Choice of Colors) (1,008 lbs.) SURFACE MOUNT 1 Man 1 Day 684 Sq. Ft. of 1-1/2" Poured-in-Place Safety Surfacing 50% Black & 50% Color (Delivered & installed @ \$9.20 a Sq. Ft.)				\$7,731.00 \$600.00 \$7,293.00	

ORDERS MUST BE SIGNED AND DATED

Purchase Authorized By _____ Date _____
 Signing of this Proposal/Order Form constitutes approval of the purchase of goods and/or services itemized herein.

Provide Certificate of Capital Improvement. No Sales Tax on Installation.

SUBTOTAL	\$15,624.00
PLUS INSTALLATION (1 Man 1 Day)	
PLUS FREIGHT (1,008 lbs.)	NO CHARGE
SALES TAX ON FREIGHT & EQUIP. (IF APPLICABLE)	
LOCALE _____ % X	
TOTAL	\$15,624.00
LESS DEPOSIT PAID on 12/19/03	\$7872.00
BALANCE PAID on 1/15/04	\$7812.00

TERMS: All merchandise is F.O.B. shipping point. Net 30 days from date of invoice to established accounts. All others by deposit with balance due on a C.O.D. basis or net 10 days at the discretion of the company.

"Playgrounds of Distinction"

C. & V. IRON WORKS, CORP.

2630 Fink Avenue

Bronx, New York 10461

(718) 823-4180

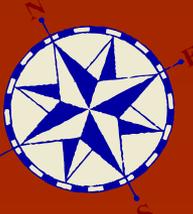
Fax (718) 918-9795

NAME		DATE	
ADDRESS		08/23/03	
CITY			
MARK	MODEL	SERIAL NO.	
NATURE OF SERVICE		<input type="checkbox"/> C.O.D. <input type="checkbox"/> CHARGE	
QUANT	FACTOR	DESCRIPTION	PRICE
1		Supply & install platform	
2		banding for steps	
3		All system will be	
4		done according to plan	
5			
6			
7			
8			
9			
10			
11			
12			
COMMENTS		TOTAL MATERIAL	
\$1000 paid.		TECHNICAL SERVICE	
DATE COMPLETED 08/29/03		TAX	
TELEPHONE	Mickey	CASH ON COMPLETION OF WORK	TOTAL \$10603.75

INVOICE

Signature below constitutes acceptance of above service performed as being satisfactory - and that amount has been paid.

Thank You



1720

To Reorder: www.cvaniron.com

C. & V. IRON WORKS, CORP.

2630 Fink Avenue
Bronx, New York 10461

(718) 823-4180
Fax (718) 918-9795

NAME: [REDACTED] DATE: 08/23/03

ADDRESS: [REDACTED]

CITY: [REDACTED]

MARK: [REDACTED] MODEL: [REDACTED] SERIAL NO.: [REDACTED]

NATURE OF SERVICE: [REDACTED] C.O.D. CHARGE

QUANTITY	UNIT	DESCRIPTION	PRICE	AMOUNT
1		Supply & install platform		
2		landings for steps		
3		All system will be		
4		done according to plan		
5				
6				
7				
8				
9				
10				
11				
12				

COMMENTS: \$1000 paid.

DATE COMPLETED: 08/29/03

TITLESMAN: Mickey

INVOICE

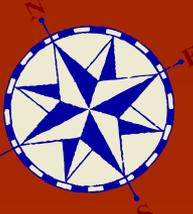
CASH ON COMPLETION OF WORK

TOTAL MATERIAL & TECHNICAL SERVICE: \$10603.75

TOTAL: \$10603.75

Signature below constitutes acceptance of above service performed as being satisfactory - and that no further work is required.

Thank You





Asbestos
 Planning
 Interiors
 COstruction Consultants

B-4 Consult
 92-31 Union Hall Street
 Box 11, Gertz Plaza Ma
 Jamaica, N. Y. 11432
 718-638-0035/658-7766

June 24, 2003

TO: Grantee A

Invoice for DOB and Fire Dept. Filings

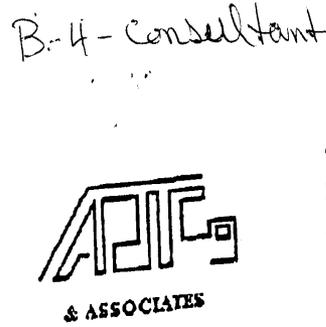
\$7,500.00

TOTAL INVOICE

\$7,500.00 Cash

Robert J. Boviano
 Robert J. Boviano
 Architect

Harry Cyrille
 Harry Cyrille
 President
 Office of Operations



Asbestos
 Planning
 Interiors
 COstruction Consultants

B-4 - Consultant
 92-31 Union Hall Street
 Box 11, Gertz Plaza Mall
 Jamaica, N. Y. 11432
 718-638-0035/658-7766

August 18, 2003

TO: Grantee B

Invoice for DOB and Fire Dept. Filings

\$9,500.00

TOTAL INVOICE

\$9,500.00 (Cash)

Robert J. Boviano
 Robert J. Boviano
 Architect

Harry Cyrille
 Harry Cyrille
 President



Asbestos
 Planning
 Interiors
 COstruction Consultants

B-4 Consult
 92-31 Union Hall Street
 Box 11, Gertz Plaza Ma
 Jamaica, N. Y. 11432
 718-638-0035/658-7766



Asbestos
 Planning
 Interiors
 COstruction Consultants

92-31 Union Hall Street
 Box 11, Gertz Plaza Mall
 Jamaica, N. Y. 11432
 718-638-0035/658-7766



June 24, 2003

TO: Grantee A

Invoice for DOB and Fire Dept. Filings

\$7,500.00

TOTAL INVOICE

\$7,500.00

August 18, 2003

TO: Grantee B

Invoice for DOB and Fire Dept. Filings

\$9,500.00

TOTAL INVOICE

\$9,500.00

Robert J. Boviano
 Robert J. Boviano
 Architect

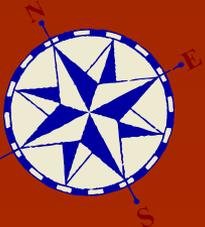
Harry Cyrille
 Harry Cyrille
 President

Robert J. Boviano
 Robert J. Boviano
 Architect

Harry Cyrille
 Harry Cyrille
 President

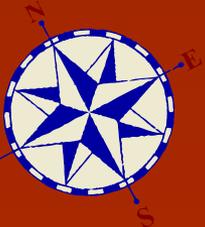
Document Flags

- Ⓡ Inadequate, copied or apparently altered documents
- Ⓡ Homemade or handwritten invoices and/or receipts
- Ⓡ Similar or same invoice template used by multiple vendors



Document Flags

- ✍ PO Box, suite number, mail drop address
- ✍ Multiple addresses for a single vendor
- ✍ No phone number or fake phone number

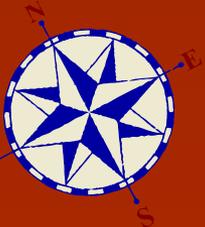


Document Flags

☞ No TIN

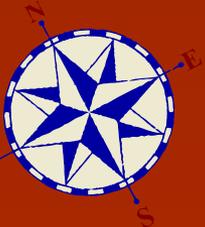
☞ Unknown company name

☞ Company name includes initials or personal name



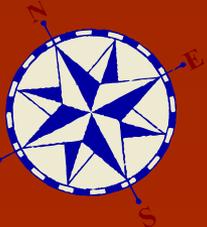
Document Flags

- No letterhead
- Misspellings on document
- Vague information
- Missing documents or no supporting documentation



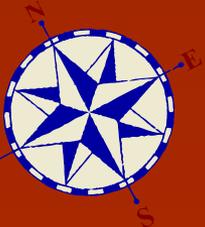
Document Flags

- ✎ Large dollar payments made with cash
- ✎ Higher than usual quantities ordered
- ✎ Unusual items ordered
- ✎ Unexplained items on reconciliations



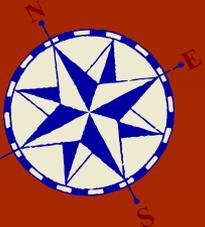
Document Flags

- ↻ Sequential, inconsistent, or repeated invoice numbers
- ↻ Invoice figures do not add up
- ↻ Recurring identical amounts from same vendor



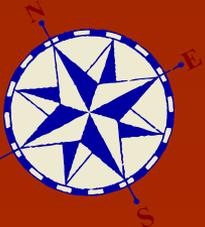
Document Flags

- Ⓡ Round amounts or amounts under approval levels
- Ⓡ Increased amounts to vendor for no apparent reason



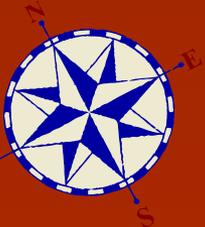
Document Flags

- ✎ Invoices for desirable/portable items (e.g., laptops, cameras, cell phones)
- ✎ Invoices for items you might find in your home (e.g., table, couch, carpet, air conditioner, microwave, tools)



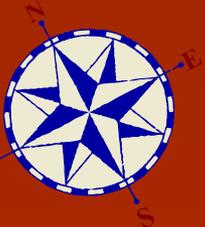
Document Flags

- ✎ Invoice dates fall outside contract period or spending period
- ✎ Items purchased that were not contained in the approved budget
- ✎ Budget modifications made after the work was performed



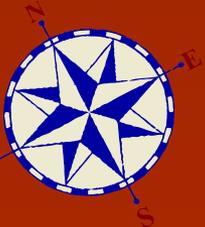
Contracting Flags

- Restrictive or vague specifications
- Low number of bidders
- Regular bidders do not bid
- Same vendor(s) repeatedly winning bids



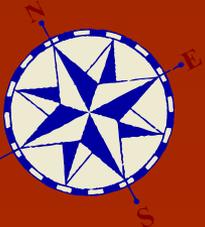
Contracting Flags

- ↳ Bids from vendors not on an approved vendor list
- ↳ Bids/quotes received from the same fax number around the same time
- ↳ Similar letterheads of bidders
- ↳ Large difference in bid amounts



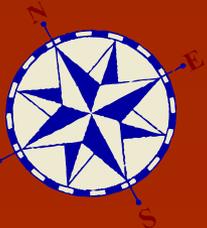
Contracting Flags

- ↳ Unreasonable bid amounts
- ↳ Bid amounts slightly below approval levels
- ↳ Unable to confirm bids with losing vendors
- ↳ Separate bids for labor and materials



Contracting Flags

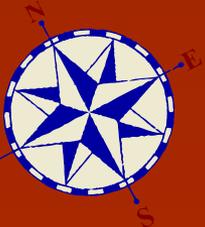
- ✎ Lowest bidder does not receive award
- ✎ Lack of vendor contact information on bids
- ✎ Bidder's signature is the company name, not an individual
- ✎ Unusual condition of bid document (e.g., cuts, rips, white out)



Travel Reimbursement Flags

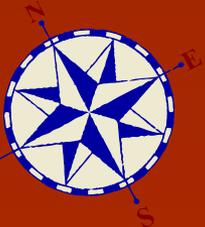


- ✂ High airline prices
- ✂ Business or first-class instead of coach
- ✂ Plane tickets with matching last names
- ✂ Unusual lodging or destination



Travel Reimbursement Flags

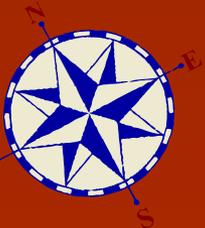
- ✎ Same leave and return times on multiple trips
- ✎ Consistently over per diem allowances
- ✎ Personal-type expenses
- ✎ High ranking officials



Credit Card Flags



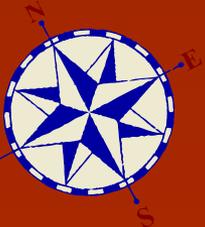
- Personal-type purchases
- Shipping address differs from billing address
- No reconciliation of credit card charges
- Charges to the same vendor



Credit Card Flags



- ⌚ Charges made on weekends or around holidays
- ⌚ Charges for the same amount
- ⌚ Excessive volume of charges
- ⌚ For travelers – charges close to home or work



Exercise

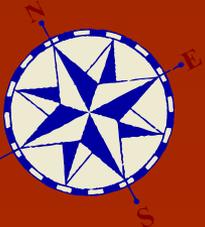
Travel Card Charges



Travel Card Example

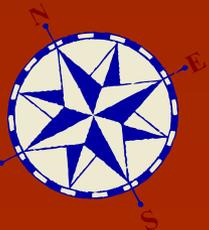
➤ Traveled on day trips from a regional office

➤ 70 charges/month



Charges by Vendor

Merchant Name	Count	Annual Total
WALGREENS #9800	21	\$2,008.09
NICE N EASY GROCERY SH	34	1,806.88
SUNOCO SVC STATION	51	1,576.09
GOOD N EASY	35	1,490.89
#405 GREENIES MARKET	39	1,093.61



Individual Charges

Merchant Name	Transaction Amount	Transaction Date
WALGREENS #9800	\$60.24	7/30/2008
WALGREENS #9800	\$105.95	7/30/2008
WALGREENS #9800	\$54.38	8/10/2008
WALGREENS #9800	\$105.95	8/12/2008
WALGREENS #9800	\$160.90	8/25/2008
WALGREENS #9800	\$166.29	8/27/2008
WALGREENS #9800	\$111.34	8/29/2008
WALGREENS #9800	\$105.95	9/6/2008
WALGREENS #9800	\$111.34	9/12/2008
WALGREENS #9800	\$54.95	9/19/2008
WALGREENS #9800	\$54.95	9/28/2008
WALGREENS #9800	\$105.95	10/5/2008
WALGREENS #9800	\$105.95	10/12/2008
WALGREENS #9800	\$105.95	10/15/2008
WALGREENS #9800	\$60.35	10/21/2008
WALGREENS #9800	\$160.90	10/23/2008
WALGREENS #9800	\$105.95	10/26/2008
WALGREENS #9800	\$105.95	11/9/2008
WALGREENS #9800	\$54.95	11/23/2008
WALGREENS #9800	\$54.95	11/30/2008
WALGREENS #9800	\$54.95	11/30/2008

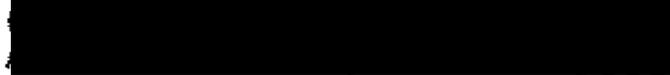


WELCOME
 FASTRAC MARKETS
 MANAGER: CHRIS W
 315-734-0418

#242 ORISKANY BL 54292980290888-539439-2
 1706 ORISKANY ST. UTICA NY
 315-734-0418 13502

Descr.	qty	amount
UNLD CR #04:D	3.338G	10.01
SELF @ 2.999/ G		
T OLD MTL CN 12PK	1	7.49
12 PK DEP		0.60
CUSTOMER ID VERIFIED	05/12/48	
T <u>DORAL LT MTL BOX</u>	1	5.91
Sub Total		24.01
Tax		1.12
TOTAL		25.13
CREDIT \$		25.13

CARD TYPE: VISA



EXP. DATE: TRANS TYPE: SALE
 SEQ# 9212 REFERENCE# 829300863429288
 AUTH# 006479 APPROVED
 BATCH# 20081078057

X
 I AGREE TO PAY TOTAL AMOUNT ACCORDING TO
 CARD ISSUER AGREEMENT. _____ INITIALS



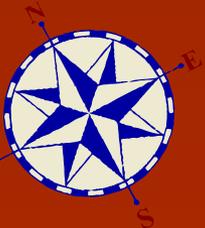
WALPG198
STORE: 09800

ELECTRONIC JOURNAL REPORT
TIMEFRAME: 11/09 00:00-23:59

01/07/09 16:00
PAGE 1 OF 1

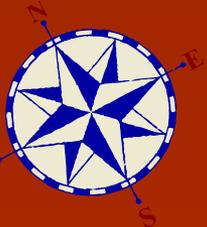
180 10 4812 09800 027
VISA G/C \$100 047037100100 1 100.00
ACCT# 075254500686020984
VISA \$100 047037000001 1 5.95
ACCT#

VISA ACCT# [REDACTED] TOTAL 105.95
CREDIT CARD 105.95 CHANGE
11/09/08 12:48:36 12:49:00 .00
EXP. DATE 06/10 *SWIPED



Travel Card Example

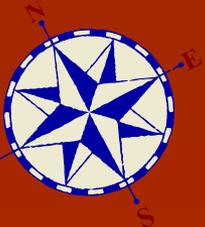
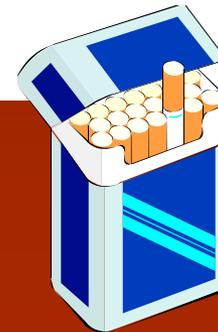
- ✎ \$8,300 in personal charges
- ✎ Two felonies – 3rd degree grand larceny and defrauding the government
- ✎ One misdemeanor - official misconduct



Gas Card Flags

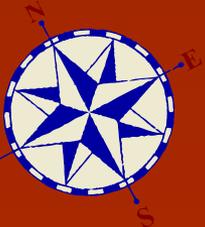


- Premium gas charges
- Regular and diesel gas on the same card
- Non-fuel purchases (e.g., cigarettes, beer)



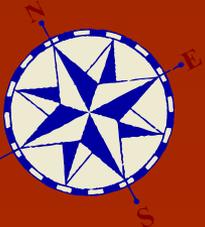
Gas Card Flags

- Gallons purchased exceed gas tank capacity
- No accountability for car mileage
- No reconciliation of charges



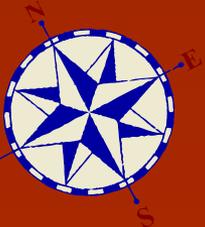
Shell Company Flags

- ⌚ You have never heard of this company
- ⌚ Company receives many small dollar payments
- ⌚ Company name includes initials or personal name
- ⌚ Company sells intangible services difficult to confirm



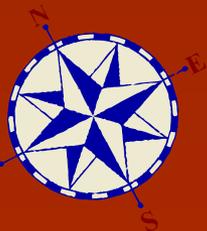
Shell Company Flags

- No phone number or fake phone number on invoices
- Address is a post office box or suite number
- No receiving reports



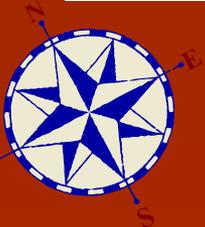
Inventory Flags

- Missing inventory or assets
- Excess/unnecessary inventory
- Obsolete inventory
- Unrestricted access to inventory
- Unable to locate purchased items



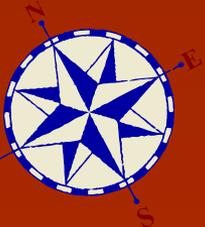
Inventory Flags

- No minimum, maximum or reorder levels for inventory
- Lack of regular physical inventory counts
- Goods different than purchased (e.g., different model or serial numbers)



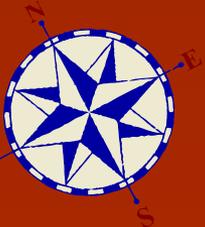
Other Flags

- ↪ Unwillingness or unusual delays in providing needed data/information
- ↪ Limited access to people
- ↪ Missing data



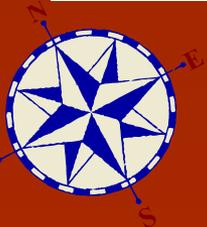
Other Flags

- ⌚ Managers regularly do subordinate duties
- ⌚ Chronically low morale
- ⌚ Lack of independence in the Internal Audit function



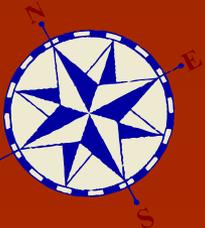
Conflict of Interest Flags

- Relationships among vendors
- Relationships between vendor(s) and agency staff
 - Vendor's address or identification number matches employee's personal information



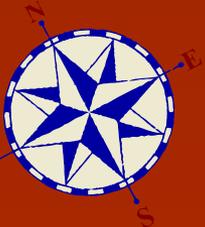
Bribes and Kickbacks Flags

- Unjustified favoritism of a certain vendor
- Unexplained increase in wealth of employee
- Close socialization with or acceptance of inappropriate gifts from a vendor



Professional Skepticism

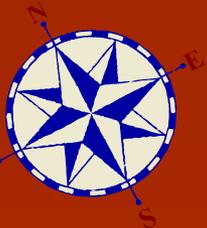
 An attitude that includes a questioning mind and critical assessment of information.



Questioning Mind

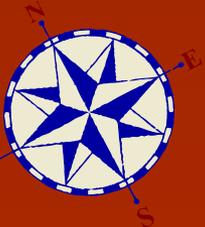
↳ Why?

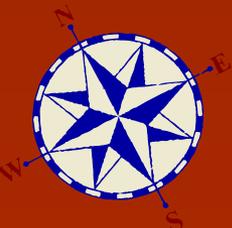
↳ Show me!



Critical Assessment of Information

- Does this make sense?
- How can I verify it?





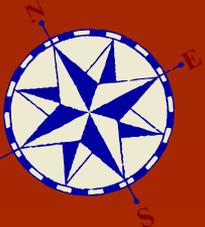
Questions With Answers

➤ Instead of:

➤ "Did you verify that there were 36 items in the box?"

➤ Try:

➤ "How many items are in the box?"



Why don't people report their suspicions?



What If You Suspect Fraud?

➤ Supervisor

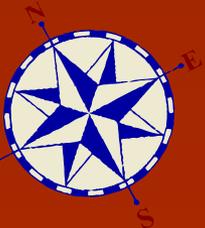
➤ Internal Auditor

➤ State Comptroller

➤ (888)OSC-4555

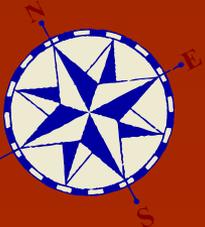
➤ State Inspector General

➤ (800)DO-RIGHT



Report Detailed Information

- ☞ Describe the alleged wrongdoing
- ☞ Identify when the alleged wrongdoing started and if it's still occurring
- ☞ Identify who may be involved
- ☞ Identify other potential witnesses or victims



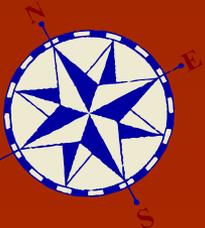
Report Detailed Information

- Identify who you may have already notified (i.e., supervisor or other agency/personnel or law enforcement)
- Describe what evidence is available and where it can be found
- Identify what laws or agency regulations have been violated, if known



Encourage Fraud Reporting

- Conduct anti-fraud training
- Maintain open lines of communication among employees and management to bring questionable conduct to light
- Establish consequences for those that have committed fraud



QUESTIONS

