

# Anti-Fraud Controls

WVDE School Finance Summer Conference 2024

# Session Leader

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Chief Financial Officer

Finance, Human Resources, and Food Service

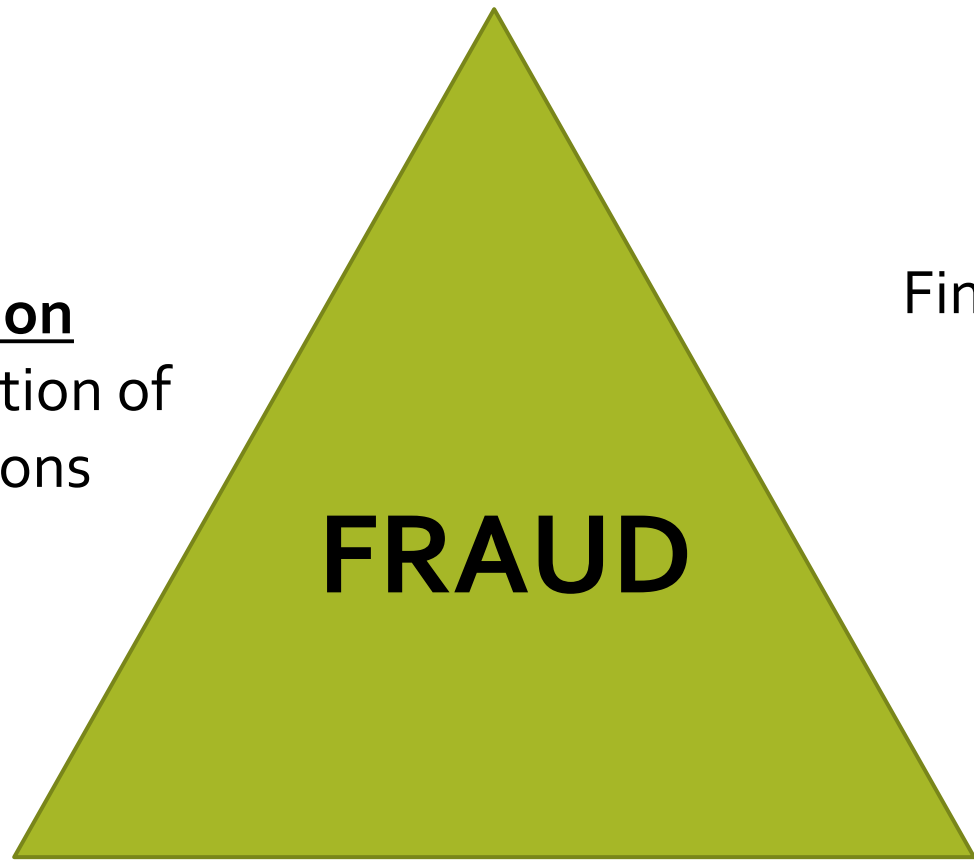
Shelby County Public Schools, Kentucky

[susan.barkley@shelby.kyschools.us](mailto:susan.barkley@shelby.kyschools.us)

- Approximately 7000 students
- About 1000 contracted employees
- 12 schools



**WE CONTROL  
THE  
OPPORTUNITIES  
THROUGH  
INTERNAL  
CONTROLS**



**Rationalization**

Personal justification of dishonest actions

**Incentive**

Financial or emotional force pushing toward fraud

**Opportunity**

Ability to execute plan without expectation of being caught

## Internal Control Defined

Internal control is a manual or automated process designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

- **Preventive** controls – stop something bad from happening before it occurs
- **Detective** Controls – identify something bad after it has occurred

**EVERYONE  
MIGHT STEAL.**

*Good people make  
bad decisions in  
tough  
circumstances.*





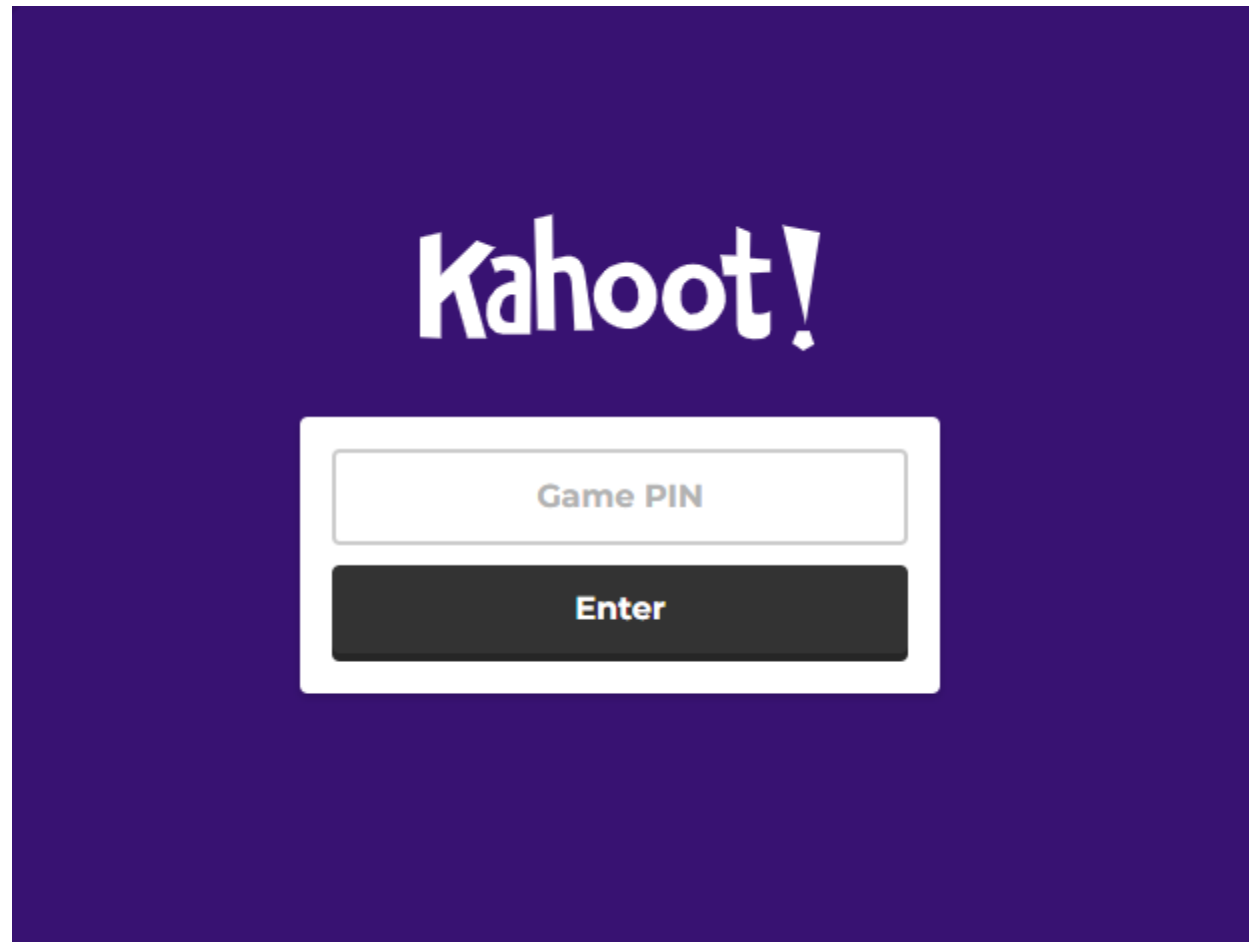




# Even a Bhuddist Monk Will Steal

- Stole \$263K from his Temple in Louisiana
- He was the presiding monk from 2010 – 2014
- Had access to 3 accounts from which he withdrew funds, sometimes returning funds
- Gambling problem
- Sentenced to 30 months in prison

Go to Kahoot.it on your device



# Question #1

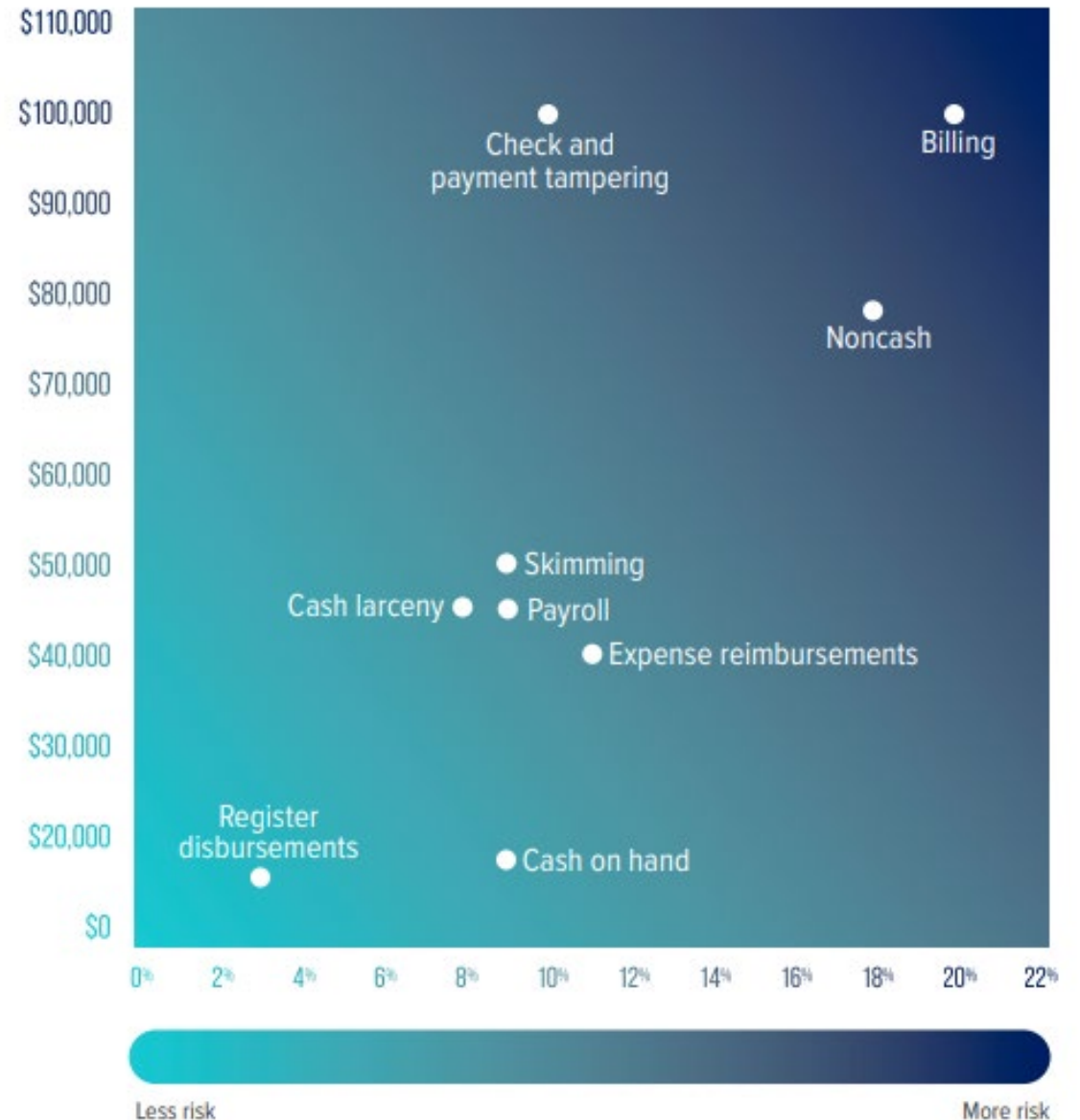
What is the most common fraud scheme?

# Asset misappropriation is the most common scheme

These sub-schemes pose the greatest risk

Category	Number of cases	Percent of all cases	Median loss
Billing	416	20%	\$100,000
Noncash	385	18%	\$78,000
Expense reimbursements	232	11%	\$40,000
Check and payment tampering	208	10%	\$100,000
Cash on hand	199	9%	\$15,000
Skimming	198	9%	\$50,000
Payroll	198	9%	\$45,000
Cash larceny	169	8%	\$45,000
Register disbursements	58	3%	\$10,000

FIG. 5 WHICH ASSET MISAPPROPRIATION SCHEMES PRESENT THE GREATEST RISK?



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# Check and Payment Tampering



The accounts payable clerk cannot also create/edit vendor records; segregation of duties



Require W-9, phone number, google some



Never pre-sign checks or use signature stamps



Control the check stock



Void check procedure



Rounded invoice amounts; amounts just below thresholds; acronym payees

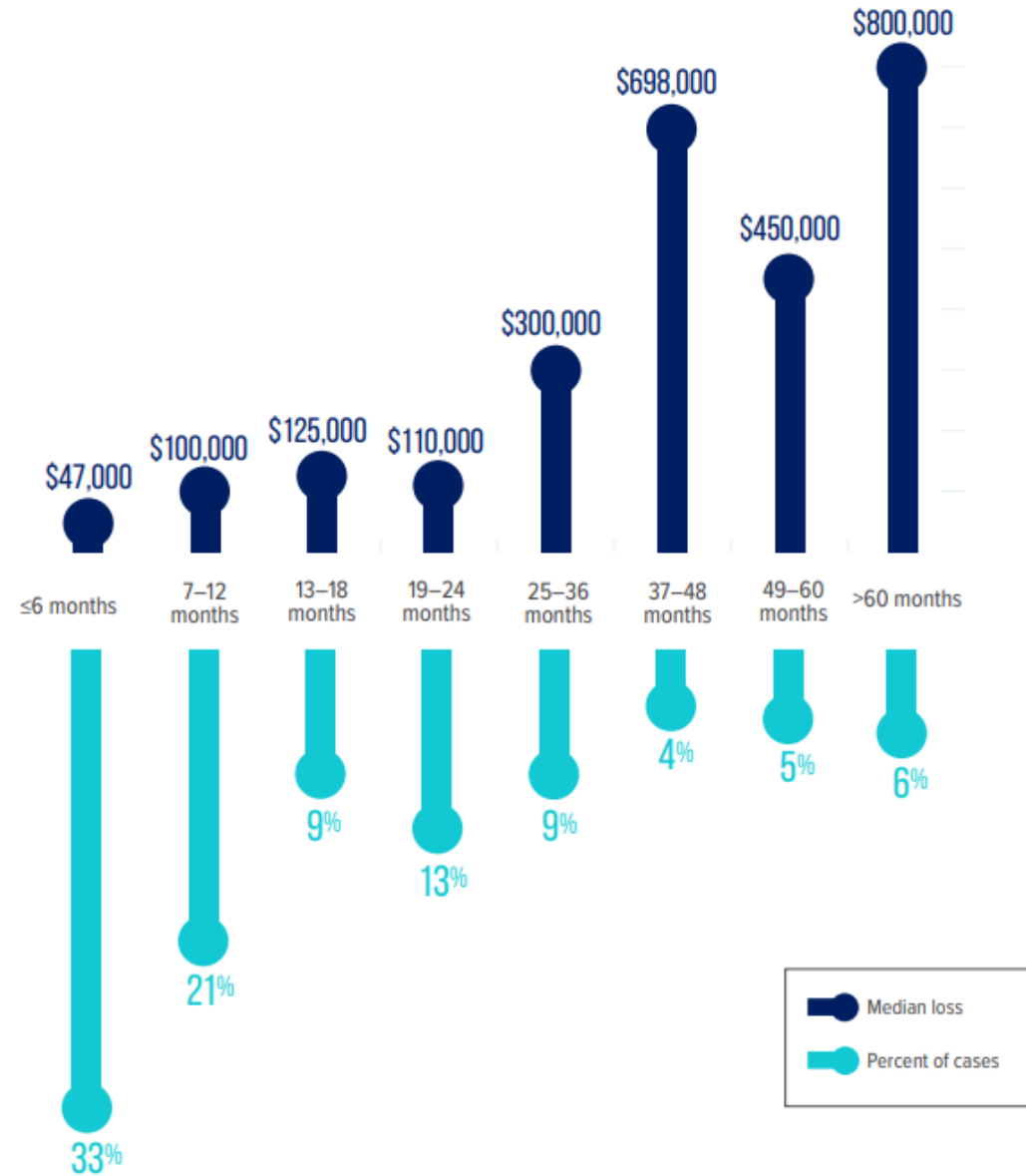


Remit address/account changes; including ACH and ACI

# Question #2

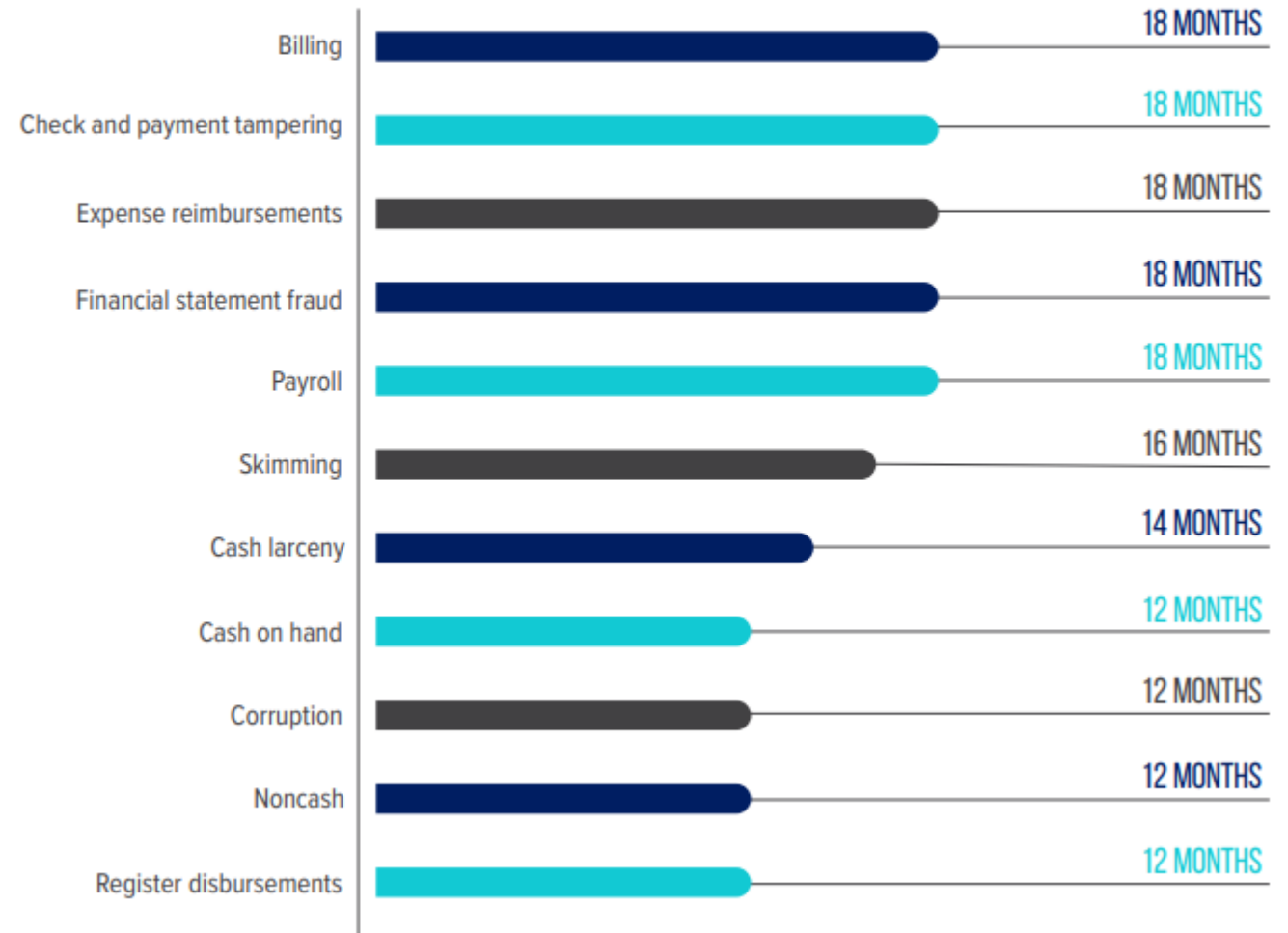
How long do most fraud cases last?

FIG. 6 HOW DOES THE DURATION OF A FRAUD RELATE TO MEDIAN LOSS?



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FIG. 7 HOW LONG DO DIFFERENT OCCUPATIONAL FRAUD SCHEMES LAST?





# Question #3

How do most perpetrators conceal their fraud?

## TOP 5 CONCEALMENT METHODS USED BY FRAUDSTERS



39%

Created fraudulent physical documents



32%

Altered physical documents



28%

Created fraudulent electronic documents or files



25%

Altered electronic documents or files



23%

Destroyed or withheld physical documents

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# False Documents, Destroying Documents

- This will impact the effectiveness of our detective controls
- Internal and external risk
- Require original documents
- Principal receives the bank statement first

# EXTERNAL Fraud Attempt – KY

Attempt to redirect funds from a legitimate vendor to a fraudster's account



Email is sent to the district asking for a change in remit instructions for an existing vendor



Legitimate invoices from the vendor are paid according to the new ACH instructions

**From:** [REDACTED]@tienrey.com>  
**Sent:** Thursday, October 28, 2021 8:59 AM  
**To:** Payable, Accounts <accountspayable@shelby.kyschools.us>  
**Cc:** Mai <mmoua@tienrey.com>  
**Subject:** URGENT NOTICE: TIERNEY LETTER

CAUTION: This email originated from outside of the Shelby County Public Schools domain. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Good morning,

Please find in the attached a letter from our finance department. Kindly confirm that you have read and understood this notice with a return mail.

Thank you.

[REDACTED] | **Tierney | Collections Specialist**  
1771 Energy Park Drive, Suite 100, St. Paul, MN 55108  
P: 612-455-3698 | F: 612-331-3424  
[Website](#) | [Facebook](#) | [Twitter](#) | [LinkedIn](#)  
Includer | Positivity | Arranger | Responsibility | Achiever



Our payment remittance address has changed. Please update your records as follows: PO Box 64766 St. Paul, MN 55164-0766  
(612) 331-5500 | (800) 933-7337 | Fax (612) 331-3424  
www.tierney.com

Date: 10/27/2021

### URGENT NOTICE

An urgent notice just came from our finance department informing us that a **NO DEPOSIT LINE** has been placed on our bank account due to some uncleared government tax issues.

The bank has placed our bank account on review which means that we are unable to send or receive any form of payment pending the period of review.

An internal compliance meeting is being held regarding this matter. Therefore, kindly hold on to payment until I revert to you with further development.

Thank you.

[REDACTED]  
Tierney  
Collections Specialist  
[REDACTED]@tierney.com


1771 Energy Park Drive, Suite 100, St. Paul, MN 55108.  
Includer | Positivity | Arranger | Responsibility | Achiever


**From:** [REDACTED]@tienrey.com>  
**Sent:** Wednesday, November 3, 2021 12:30 PM  
**To:** Payable, Accounts <accountspayable@shelby.kyschools.us>  
**Cc:** Mai <mmoua@tienrey.com>  
**Subject:** Re: URGENT NOTICE: TIERNEY LETTER

CAUTION: This email originated from outside of the Shelby County Public Schools domain. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Good afternoon,

This is a follow up on the mail sent to you last week, we are yet to receive a feedback on the TIERNEY notice letter that was sent.

After an internal compliance meeting regarding the situation, please be advised that we will now be receiving payment with our company routing details via ACH. 

Kindly acknowledge receipt of this email with a return mail so we can forward you our ACH details for payment processing on due invoice.   
Appreciate your prompt response.

Thank you.

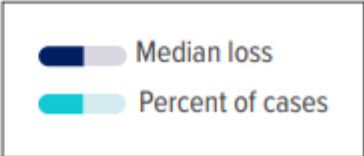
[REDACTED] | Tierney | Collections Specialist

# Question #4

Which organization experiences more costly frauds?



**FIG. 17** HOW DOES AN ORGANIZATION'S SIZE RELATE TO ITS OCCUPATIONAL FRAUD RISK?



**TRUST IS NOT  
AN INTERNAL  
CONTROL**



**TRUST BUT VERIFY**

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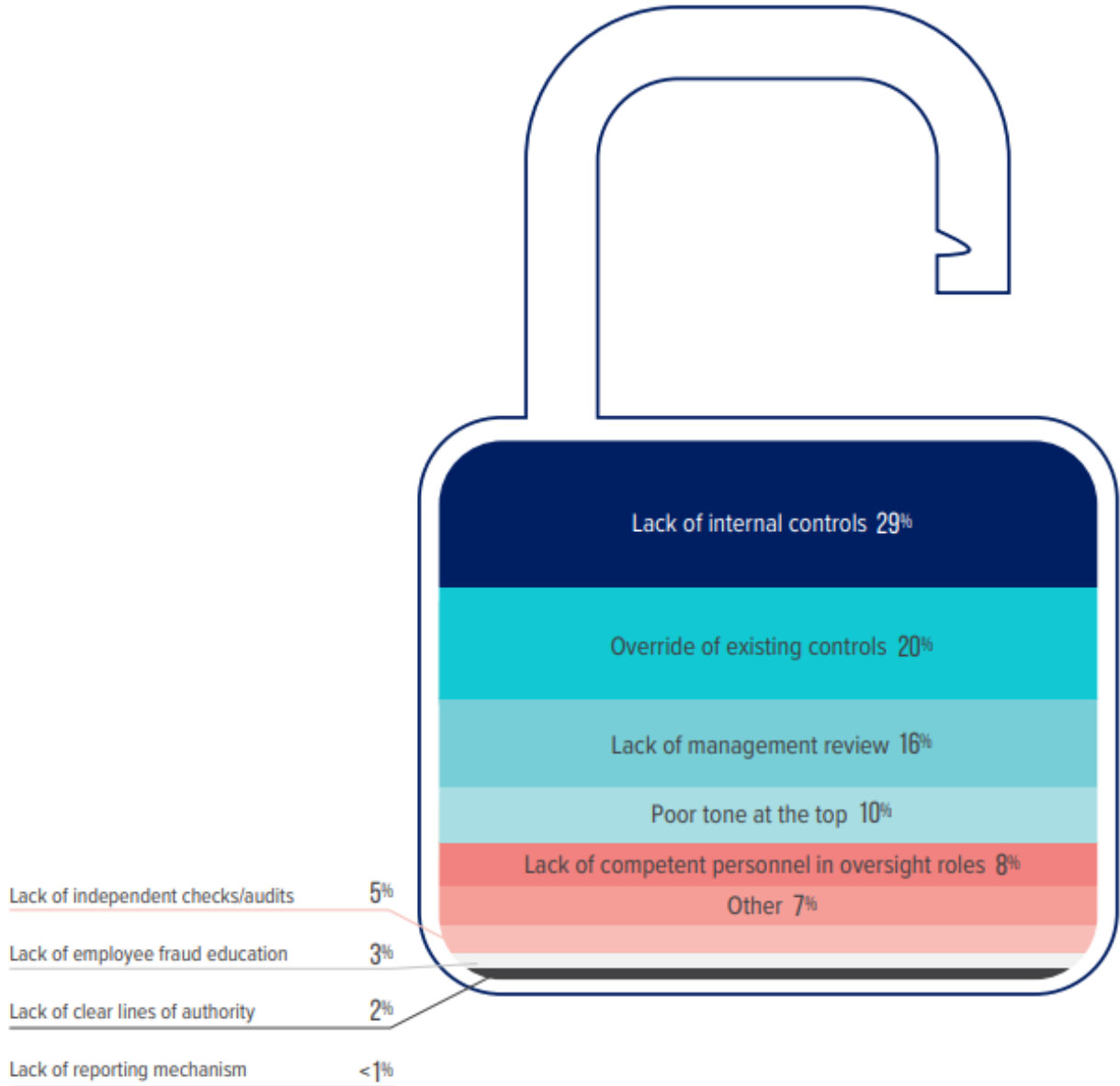
# Verification Strategies



# Question #5

What is the primary internal control weakness that led to fraud?

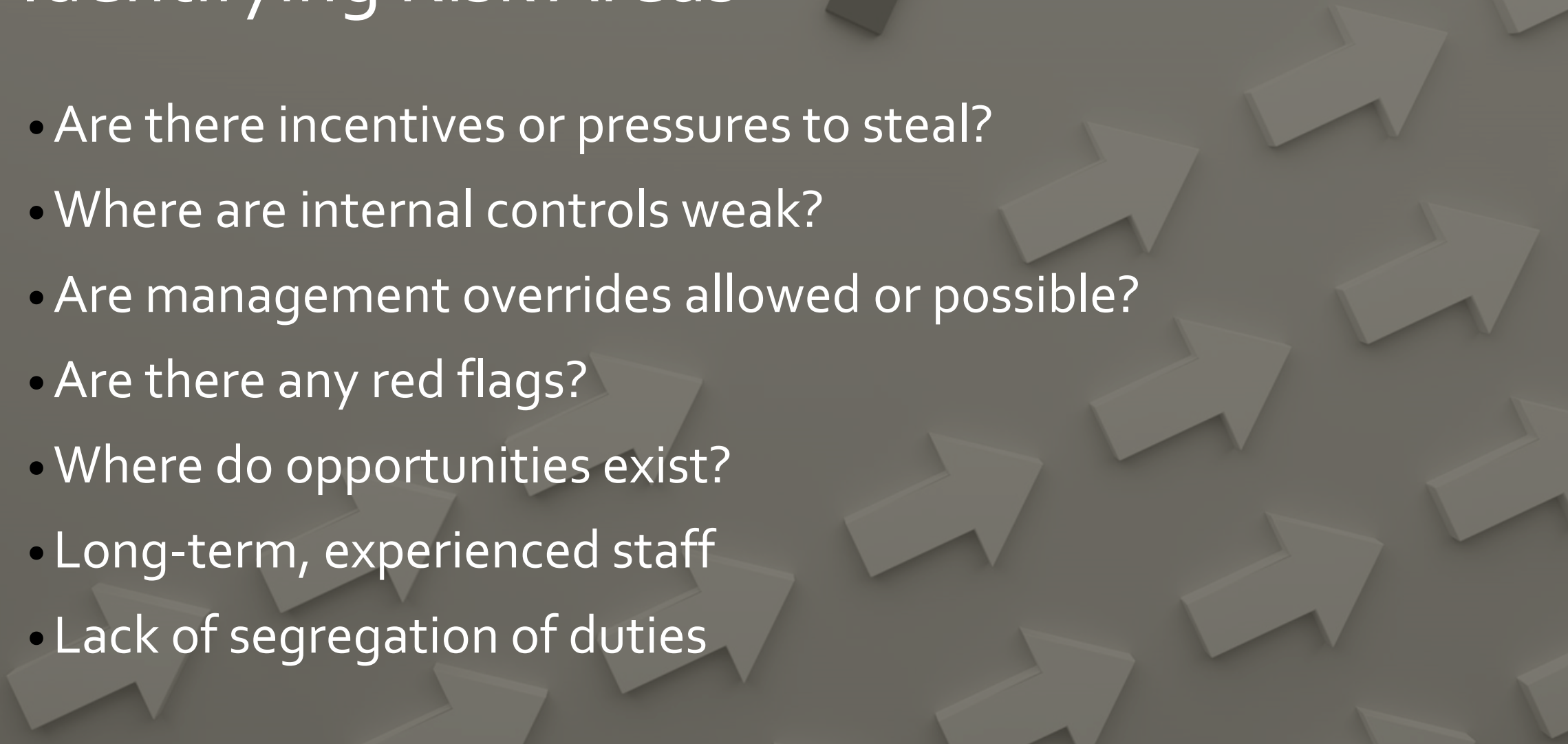
FIG. 29 WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD?



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# Identifying Risk Areas



- Are there incentives or pressures to steal?
  - Where are internal controls weak?
  - Are management overrides allowed or possible?
  - Are there any red flags?
  - Where do opportunities exist?
  - Long-term, experienced staff
  - Lack of segregation of duties
- 

# Segregation of Duties - Defined

- No single individual should have control over two or more phases of a transaction or operation
- No one individual employee can complete a significant business transaction in its entirety
- No one employee should be in a position to commit fraud and then conceal it





# Sample Internal Controls

- Someone other than the accounts payable clerk adds/maintains vendors
- Ticket reconciliation
  - Don't just make sure it's completed – review it, compare years
- Using GoFan instead of collecting cash at the gate

Are these preventive or detective controls?



# Question #6

Which group commits the larger fraud schemes?

FIG. 33 HOW DOES THE PERPETRATOR'S TENURE RELATE TO OCCUPATIONAL FRAUD?

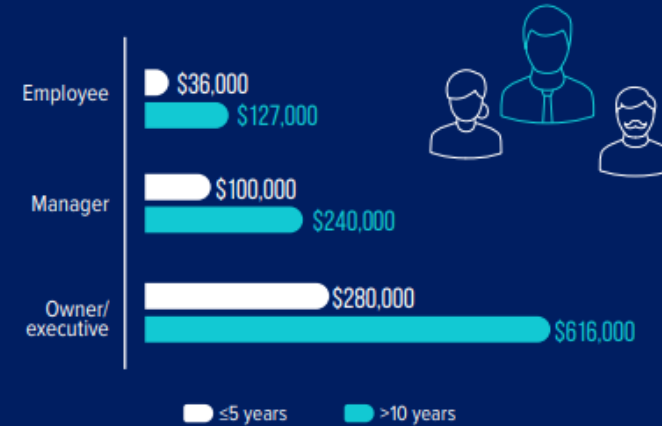


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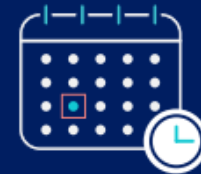
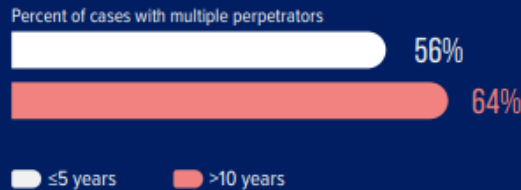
Long-tenured **FRAUDSTERS** steal almost **3X MORE**



Even when **COMPARING FRAUDSTERS** with similar **LEVELS OF AUTHORITY**, **LONG-TENURED FRAUDSTERS** caused **MUCH LARGER LOSSES**



Long-tenured fraudsters are more likely to **COLLUDE**

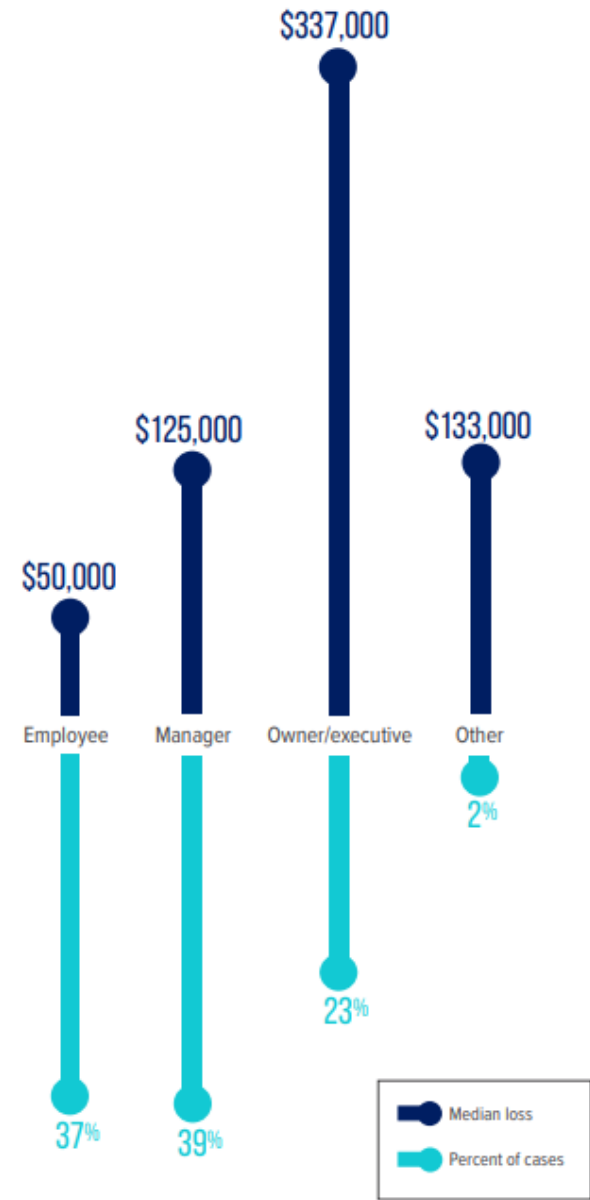


Long-tenured fraudsters **TAKE LONGER TO CATCH**



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FIG. 31 HOW DOES THE PERPETRATOR'S LEVEL OF AUTHORITY RELATE TO OCCUPATIONAL FRAUD?



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# Question #7

What is the most common red flag exhibited by fraudsters?

FIG. 44 HOW OFTEN DO PERPETRATORS EXHIBIT BEHAVIORAL RED FLAGS?



## 8 KEY WARNING SIGNS

85%

OF ALL FRAUDSTERS displayed at least one **BEHAVIORAL RED FLAG**

These are the 8 most common behavioral clues of occupational fraud. **At least one of these red flags** was observed in 76% of all cases.



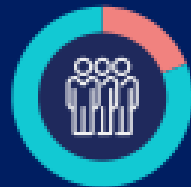
39%

Living beyond means



25%

Financial difficulties



20%

Unusually close association with vendor/customer



13%

Control issues, unwillingness to share duties



12%

Irritability, suspiciousness, or defensiveness



12%

Bullying or intimidation



11%

Divorce/family problems



10%

"Wheeler-dealer" attitude

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# Red Flags

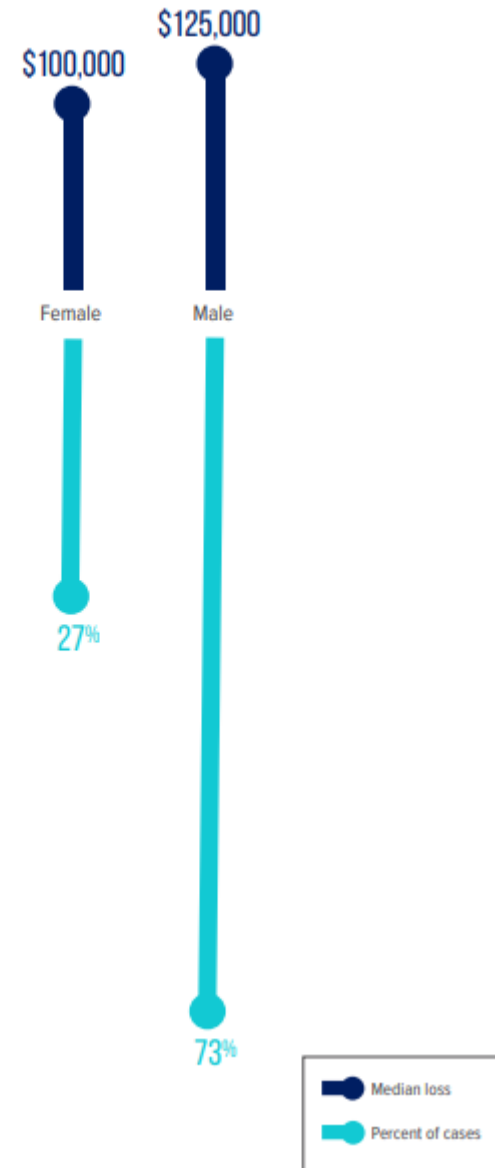
**How can we use this knowledge to design better internal controls?**

- Require cross training
- Require mandatory vacations for key positions
- Bond key positions; background checks
- PO approvals
- Observation, awareness

# Question #8

Who commits more fraud?

FIG. 36 HOW DOES THE PERPETRATOR'S GENDER RELATE TO OCCUPATIONAL FRAUD?



# Question #9

What is the most common fraud detection strategy?

FIG. 22 WHAT ANTI-FRAUD CONTROLS ARE MOST COMMON?



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The presence of anti-fraud controls is associated with



AND



**LOWER**  
fraud losses

**QUICKER**  
fraud detection

Nearly **HALF** of cases occurred due to:

Lack of internal controls

OR

Override of existing controls

29%

20%



**81%** of victim organizations **MODIFIED** their anti-fraud controls following the fraud.

75%

Increased management review procedures

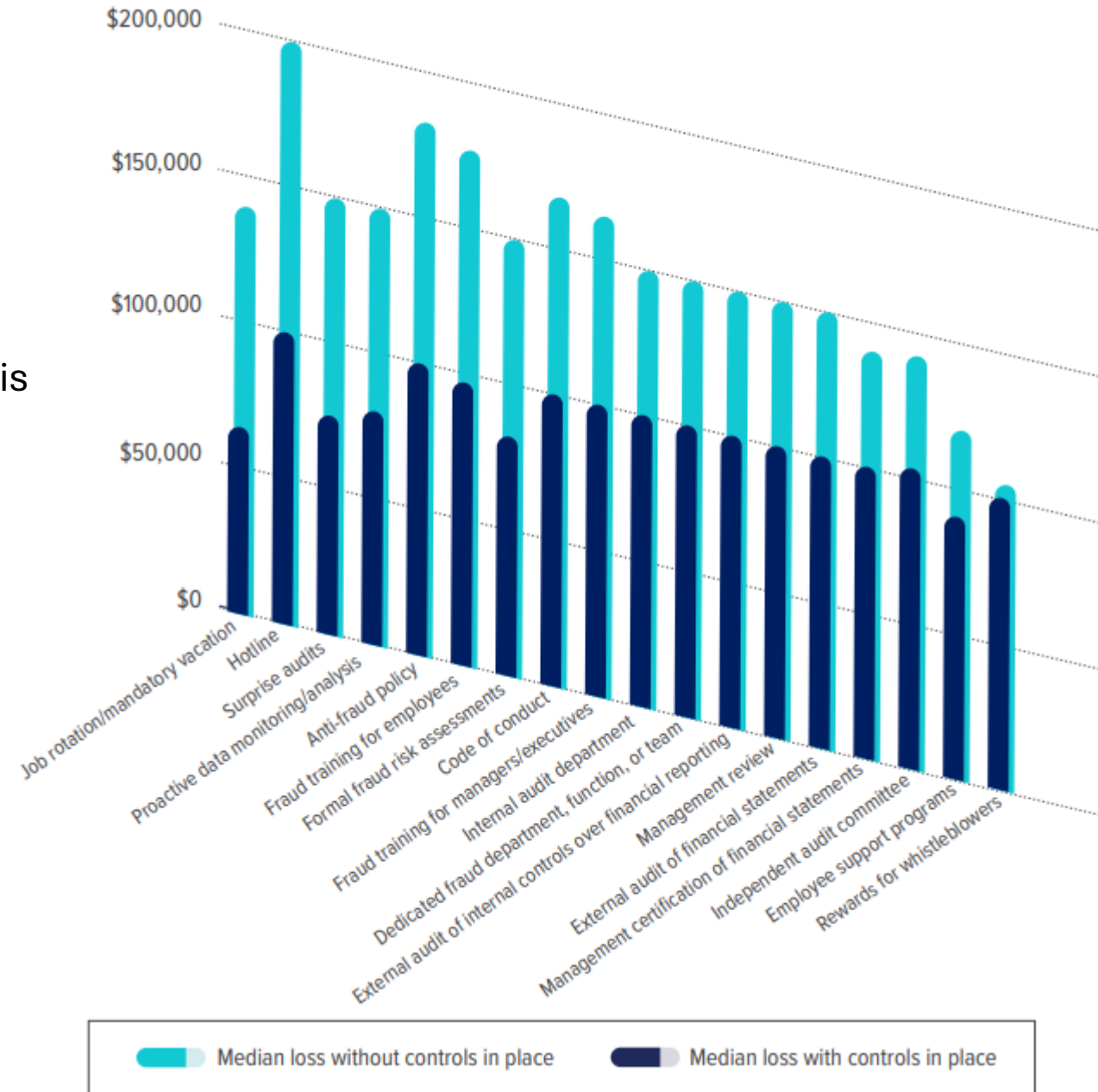
64%

Increased use of proactive data monitoring/analysis

FIG. 23 HOW DOES THE PRESENCE OF ANTI-FRAUD CONTROLS RELATE TO MEDIAN LOSS?

Most effective controls:

- Job rotation/mandatory vacation
- Hotline
- Surprise audits
- Proactive monitoring/analysis



# Question #10

How are most fraud schemes discovered?



FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

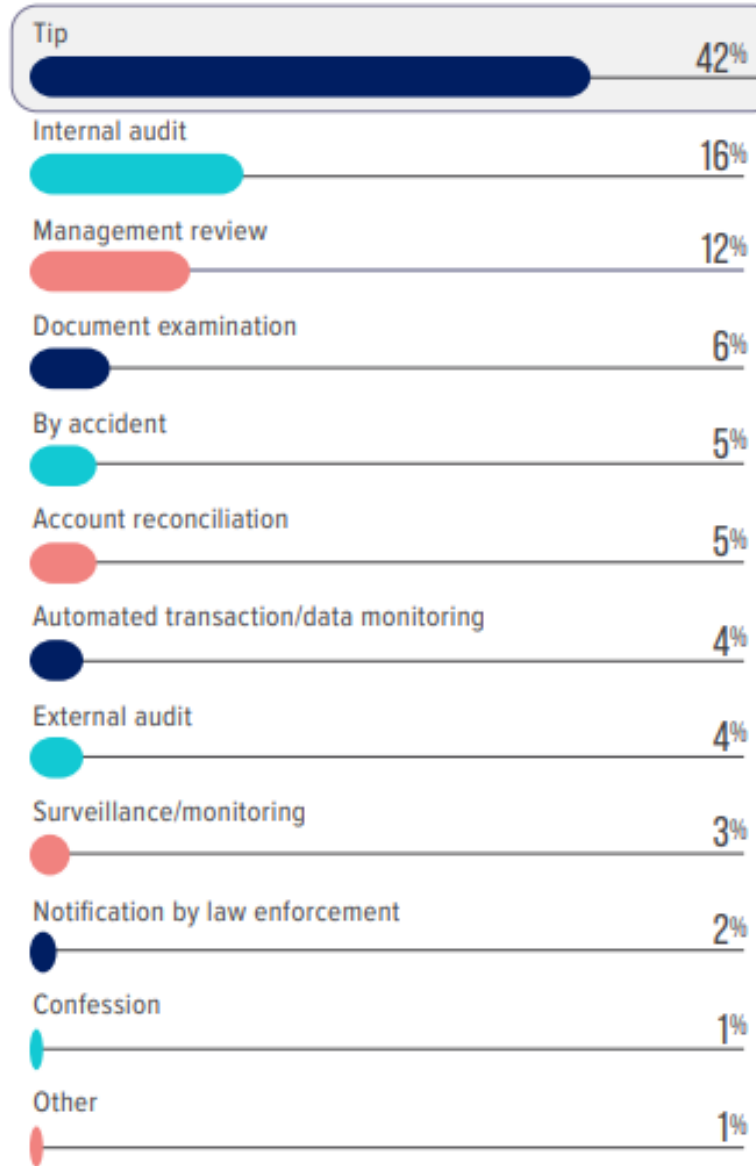
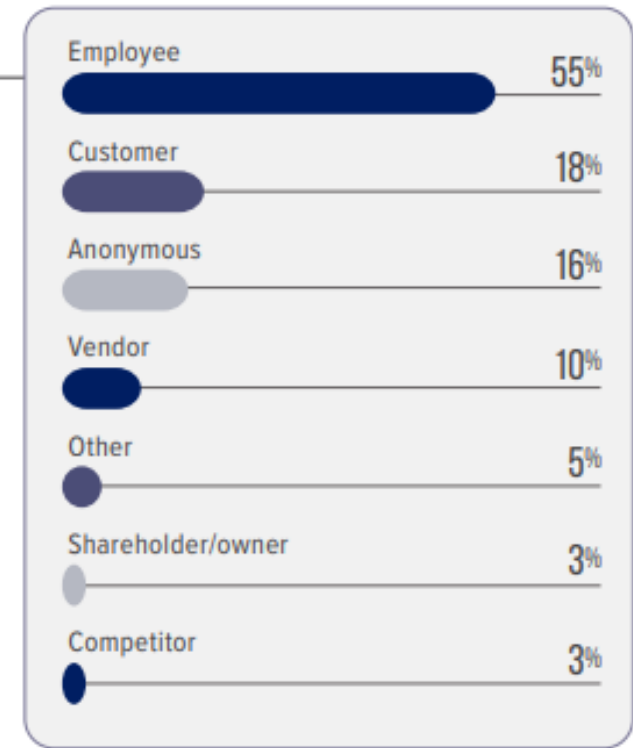


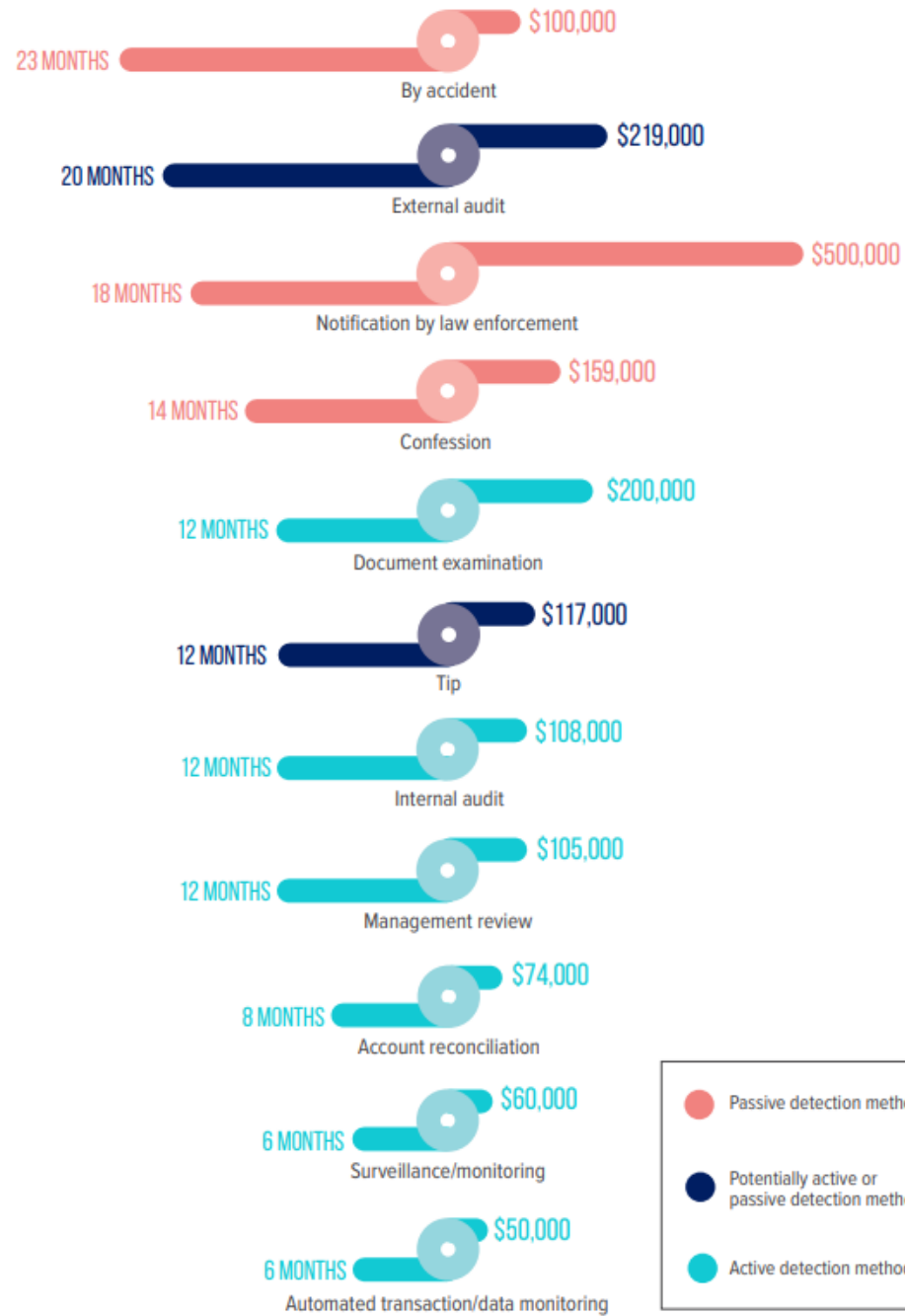
FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?




**42%** of frauds were detected by tips, which is nearly **3x** as many cases as the next most common method.

More than **HALF** of all tips came from employees.

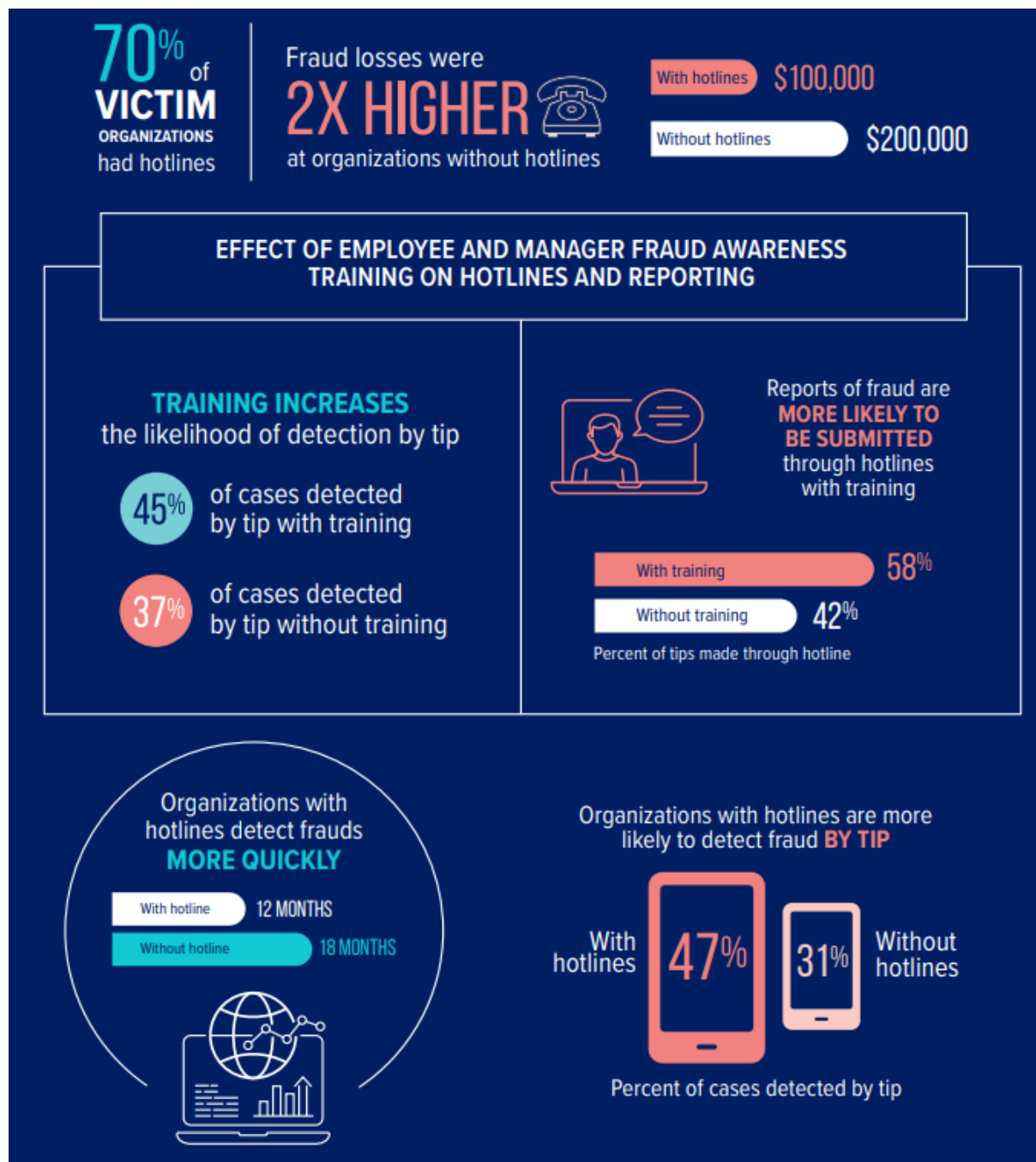




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## Reporting mechanisms:

- Email
- Web-based form
- Telephone
- Mailed letter/form



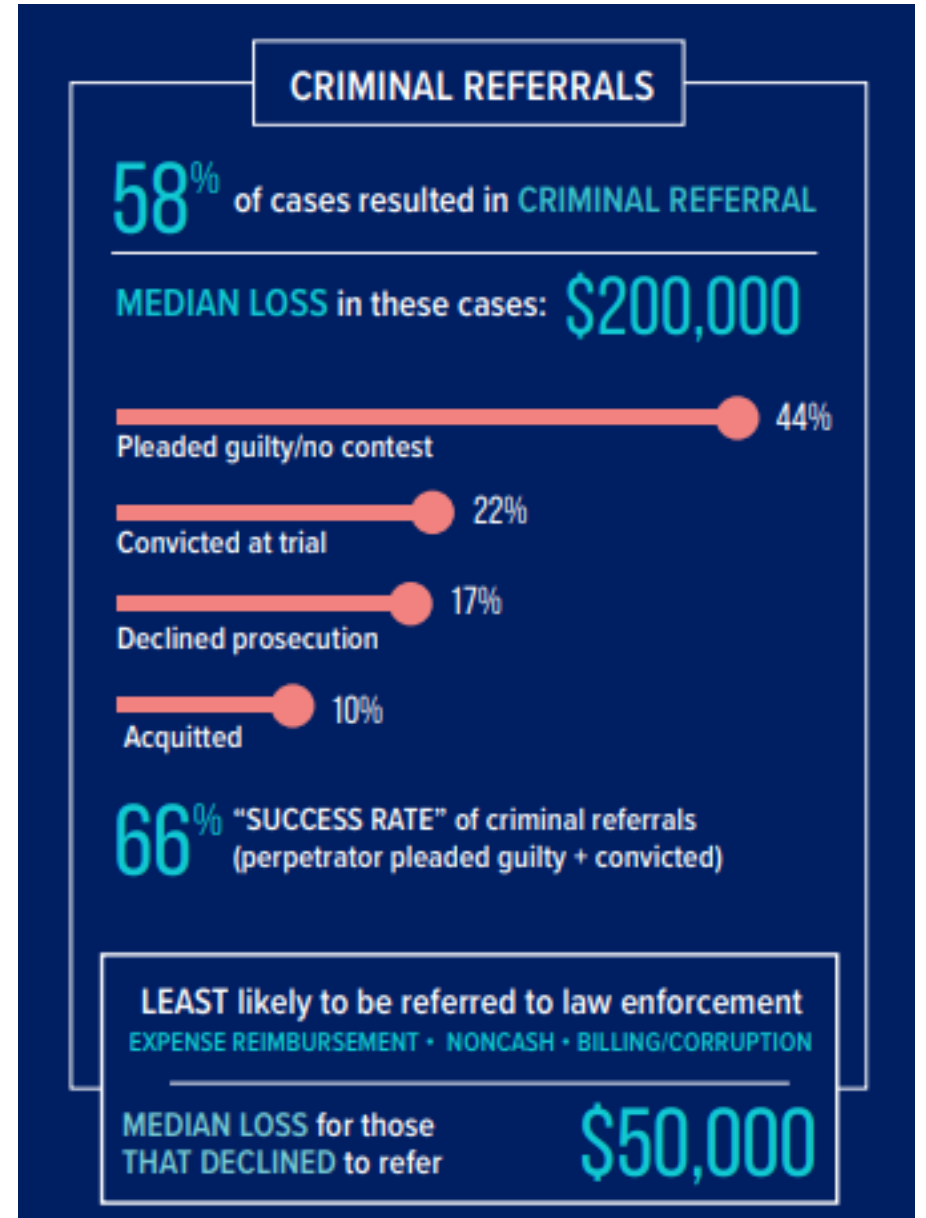
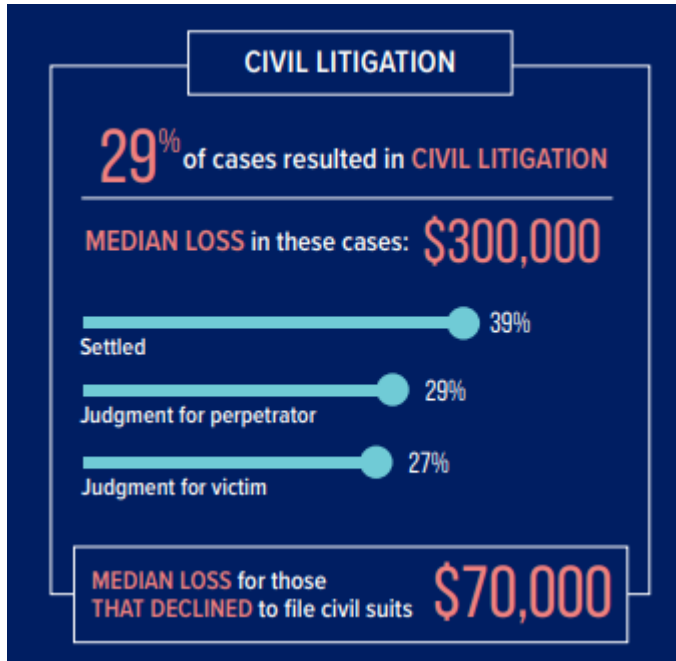
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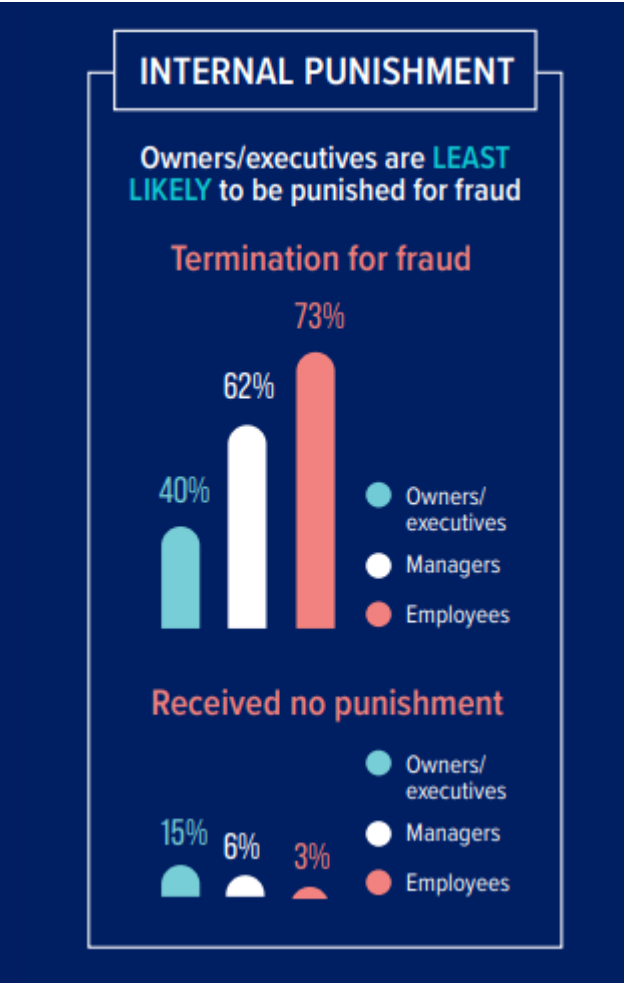
**The annual audit is not intended to  
uncover fraud**

# Question #11

How many fraud cases are referred to law enforcement for criminal charges?

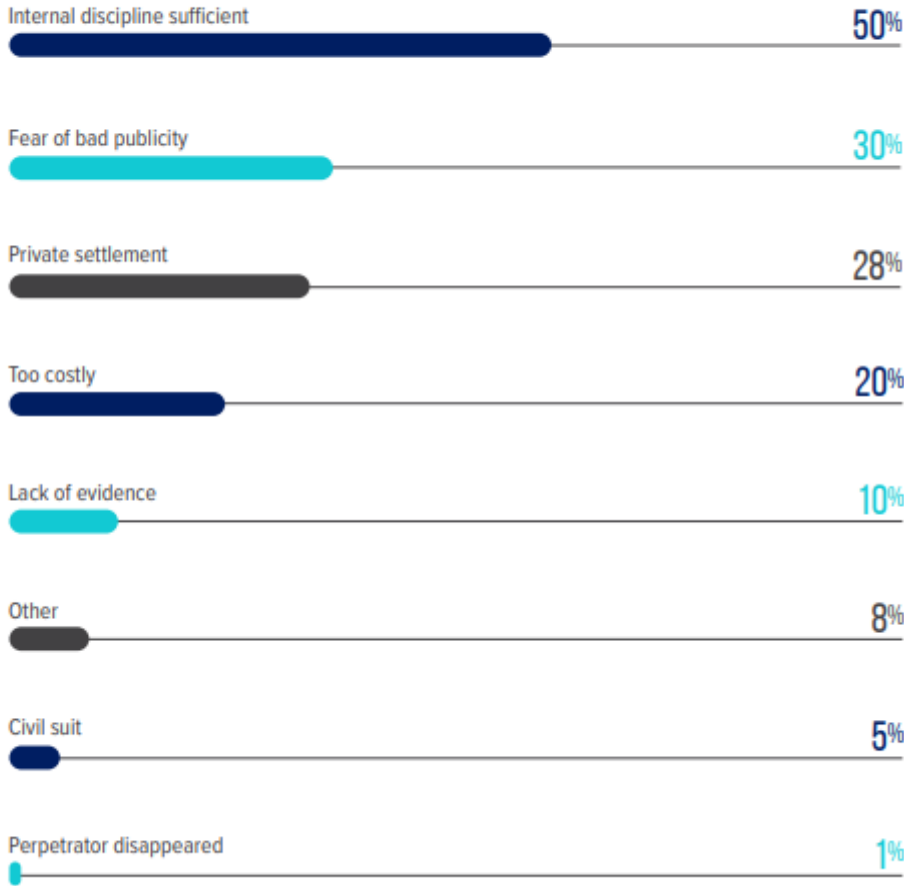


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FIG. 48 WHY DO ORGANIZATIONS DECLINE TO REFER CASES TO LAW ENFORCEMENT?



# Question #12

How many entities recover NONE of the fraud loss?





of victim organizations  
**DID NOT RECOVER**  
any fraud losses.

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## Key Takeaways

- Recognize fraud can happen in your district
- Create segregation of duties and internal controls
- Tone at the top
- No management overrides
- Periodic job/task rotation
- Fraud training
- Invite tips, even anonymous ones
- Don't throw away protocol because of friendships or trust
- Take action if fraud is discovered



THIS WAS  
FUN!

**BEST  
SESSION  
EVER!**

WOOT  
WOOT