Preventing Fraud
Internal Controls
And Fraud Prevention

WV State Auditors Office
Local Government Services Division

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"There is no kind of dishonesty into which otherwise good people more easily and more frequently fall than that of defrauding the government."
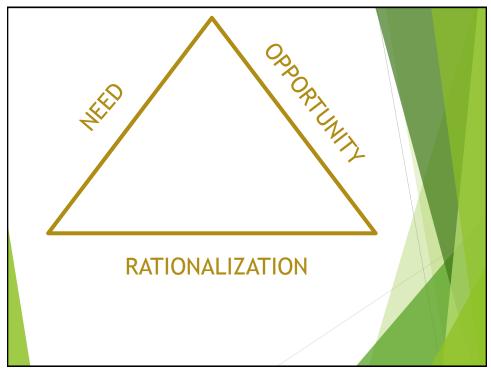
▶Ben Franklin

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Fraud vs. Theft

▶ **Fraud** is an intentional <u>deception</u> made for <u>personal gain</u> or to damage another individual.

▶ **Theft** is the <u>taking</u> of another person's property without that person's permission or consent with the intent to <u>deprive the rightful owner</u> of it.
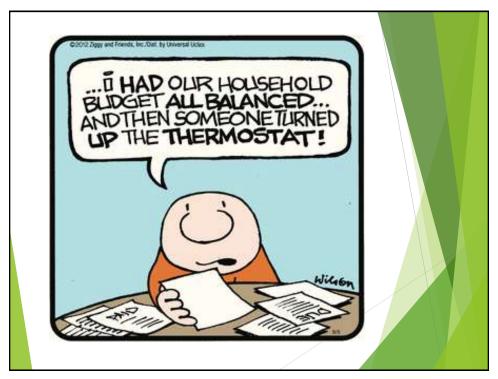
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NEED

OPPORTUNITY

RATIONALIZATION

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Need

▶ Medical illness

▶ Addiction

▶ Loss of income

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Opportunity

▶ Cash on hand

And nobody is watching

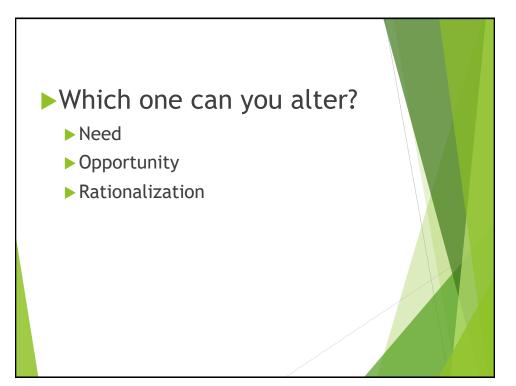▶ Control of checks and signature stamps

▶ Lack of oversight

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Rationalization

▶ I work more than anyone else

▶ I am worth more than they pay

▶ I never get a day off

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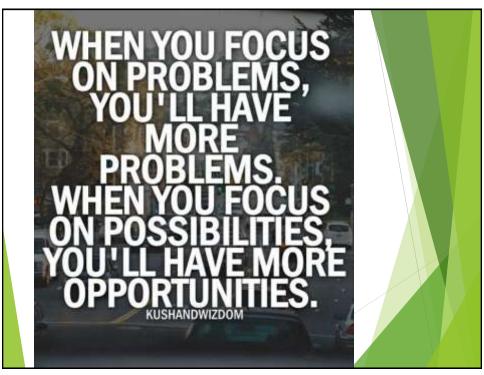A thief is not always a bad person. They may be a good person in a bad situation.

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▶ Which one can you alter?
  ▶ Need
  ▶ Opportunity
  ▶ Rationalization

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▶ Opportunities

▶ Internal Controls /
Policies and Procedures

Fraud Prevention Tools

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WHEN YOU FOCUS ON PROBLEMS, YOU'LL HAVE MORE PROBLEMS. WHEN YOU FOCUS ON POSSIBILITIES, YOU'LL HAVE MORE OPPORTUNITIES.
KUSHANDWIZDOM

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Five Components
of Internal Control

▶ Control Environment
▶ Risk Assessment
▶ Control Activities
▶ Information/Communication
▶ Monitoring

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Control Environment

▶ Tone at the top

▶ Perceptions

Apply to everyone, even the Superintendent and the Board Members

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Risk Assessment

▶ Loss of cash

▶ Loss of stuff

▶ Loss of credibility

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Risk Assessment

- ▶ Identify
  - ▶ objectives/procedures
  - ▶ risk areas
- ▶ Design controls
  - ▶ Prevent
  - ▶ Detect
  - ▶ Correct

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Control Activities

- ▶ Having Official Policies and Procedures

- ▶ Following the Polices and Procedures

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Information & Communication

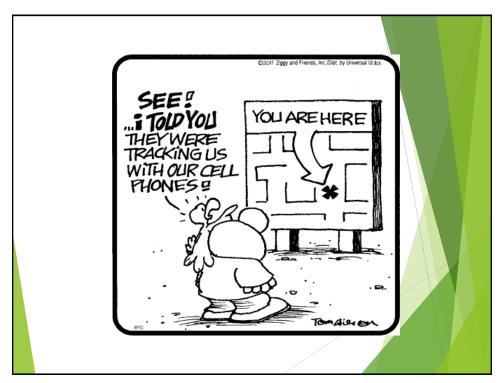- ▶ Why
- ▶ What
- ▶ How

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Monitoring

- ▶ Check the work
- ▶ Follow the rules
  - ▶ Even you
- ▶ Observe

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Policies/Procedures

▶ Discussed with staff
▶ Signed by staff

▶ **Containing what?**

Components of your
Internal Controls

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Job Descriptions

▶ Specific, Formal
  - ▶ Segregation of duties
  - ▶ Inter-relation recognized
  - ▶ Annual vacation required
  - ▶ Cover other positions for vacation/illness
  - ▶ Other duties as necessary

Information & Communication
Control Activity

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Employee handbook

▶ Approved by The Board
▶ Copy given to each employee
▶ Reviewed and updated periodically
▶ Include payroll specifications

Information & Communication
Control Activity

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Payroll Policies

- ▶ Full/part-time employee status
- ▶ Pay scales
- ▶ Rules for overtime and/or compensation time
- ▶ Timesheet submission and approval

Information & Communication Control Activity

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Payroll Policies

- ▶ Time off
  - ▶ Paid Leave
  - ▶ Accrual and usage
  - ▶ Carried forward
  - ▶ Treatment upon termination
- ▶ Benefits
- ▶ Retirement
- ▶ Inclement weather

Information & Communication Control Activity

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Hiring Procedures

- ▶ Background checks
- ▶ Do you advertise? How?
- ▶ Social media
- ▶ New employees report to the payroll clerk in person
- ▶ List of equipment issued

Information & Communication
Control Activity

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Employment Separation

- ▶ Obtain all issued equipment
- ▶ Obtain agency credit card
- ▶ Delete access to network, bank accounts, software, etc.
- ▶ Obtain office and building access (keys, cards, passcodes)
- ▶ Obtain employee ID and/or badges

Information & Communication
Control Activity

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Equipment usage

▶ Laptop
▶ Cell phone
▶ I-pad
▶ Printer/Copier
▶ Vehicle
▶ Internet

Information & Communication
Control Activity

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Credit Card Usage

▶ Issued to who
▶ Used when

Information & Communication
Control Activity

▶ Purchasing policy
▶ Travel policy

▶ Reconcile charges
▶ Personal charges

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Travel Policy

▶ Transportation
  ▶ Personal or agency vehicle
  ▶ Mileage
▶ Meals
▶ Lodging

▶ Guests

Information & Communication
Control Activity

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Additional policies

▶ Network, software
▶ Internet usage
  ▶ Social media
▶ Cell phone usage
▶ Capital Asset/Inventory
▶ Meeting notice

Information & Communication
Control Activity

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Cash Drawer

▶ Not shared

▶ Fixed daily start-up amount

▶ Count with check-out sheet daily

▶ Address discrepancies immediately

▶ Limited access

Information & Communication
Control Activity

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Purchasing policy

▶ Initiate

▶ Purchase orders

▶ Approval

▶ Receipt of Delivery

▶ Delivery location

▶ Bid procedures

Information & Communication
Control Activity

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Disbursements

- ▶ Approved
- ▶ Prepare checks
- ▶ Sign checks
- ▶ Electronic
- ▶ Assign expenditure code
- ▶ Enter in system
- ▶ Mark paid

Information & Communication
Control Activity

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Receipts

- ▶ Who issues
- ▶ When issued
- ▶ Who posts
- ▶ Who reconciles
- ▶ Voids
- ▶ Duplicates

Information & Communication
Control Activity

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Event Receipts

▶ Prenumbered tickets
▶ Reconciliation report
▶ Deposits
▶ Starting Cash

Information & Communication
Control Activity

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Fund Raisers

▶ Deposit all proceeds

▶ Profit and Loss

Information & Communication
Control Activity

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Concession Sales

▶ Control inventory

▶ Profit and Loss

Information & Communication
Control Activity

Vending Machines

▶ Vendor stocked machine

▶ School stocked machine

Information & Communication
Control Activity

Deposits

▶ Daily/Weekly
▶ Reconcile
  ▶ By method of payment
  ▶ To master report
▶ List all checks
▶ Separate from reconciling

Information & Communication
Control Activity

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Bank account

▶ Open
▶ Sign
▶ Electronic Access
▶ Transfer authorizations
▶ Reconciles
▶ Closure

Information & Communication
Control Activity

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Bank Reconciliations

▶ Monthly

▶ Independent of receipts and disbursements

Information & Communication
Control Activity

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Other Reconciliations

▶ Reconcile receivables and payables monthly
▶ Reconcile cash drawers daily
▶ Reconcile daily receipts with deposit

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Monthly Reporting

▶ Financial Statement
  - ▶ For each fund/account
  - ▶ Signed and dated by preparer and principal
  - ▶ Remit to Chief School Business Official

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Physical Controls

▶ Lock/controlled access
  - ▶ Doors
  - ▶ Cash drawers
  - ▶ Safe
  - ▶ Signature stamp
  - ▶ Blank check stock
  - ▶ Receipt book
  - ▶ Electronics

Information & Communication
Control Activity

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Fraud Reporting

▶ When do I report?

▶ How do I report?

▶ Who do I report to?

Information & Communication
Control Activity

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Five Components
of Internal Control

▶ Control Environment

▶ Risk Assessment

▶ Information/Communication

▶ Control Activities

▶ Monitoring

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Employee Red Flags
AGA Fraud Prevention Tool Kit

▶ Change in lifestyle - expensive purchases
▶ Significant personal debt
▶ Behavioral changes – addiction or fear
▶ Refuses to take vacation or sick leave
▶ Refuses to take promotions
▶ High employee turnover
▶ Lack of segregation of duties

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Behavioral Red Flags
AGA Fraud Prevention Tool Kit

▶ Borrowing money from co-workers
▶ Creditors or collectors appearing at workplace
▶ Excessive drinking
▶ Easily annoyed at reasonable questioning
▶ Unreasonable responses to questions
▶ Carrying unusually large sums of money
▶ Bragging about significant new purchases

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Fraud Symptoms

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CASH

Shortage or overages in cash drawers

No cash on bank deposit slip

An unidentified check on deposit slip

Counter receipts (Manual)

Late deposits in transit

Deposits in transit growing

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RECORDS

Check amounts being altered

Duplicate payments

Delivery not made to official location

Invoices are duplicate or copies

Old outstanding checks

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RECORDS

Missing or altered documents

Excessive voided documents w/o approval

Unusual billing addresses or arrangements

Payments based on copies, not originals

Vendors payments sent to employee address
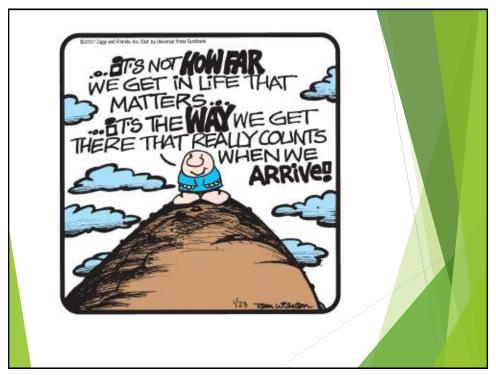
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RECEIVABLES

Adjustments to receivables

Increase in past due accounts

No collection on old accounts

Review process not being followed

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▶ Fraud is not an accounting problem, it is a social phenomenon

▶ Caught primarily by tips from insiders

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▶ Be aware that it can happen to you

Only then can you take adequate steps to help prevent it from happening to you.

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▶ Put it in writing

▶ Expect it to be followed

"If we always do what we've always done we will always get what we've always gotten."

-Anonymous

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If you Suspect Fraud

Get expert help

Preserve evidence

Do not publicly accuse

Do not over react

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