

First Friday Fraud Facts

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Share your stories

If you have a case you would like to see shared in *First Friday Fraud Facts*, please let us know.

QUESTIONS OR COMMENTS:

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Approximately 90% of all occupational fraud schemes involve asset misappropriation. This issue of F4 will cover some of the various types of asset misappropriation and what you can do to help protect your organization.

ASSET MISAPPROPRIATION

The Association of Certified Fraud Examiners (ACFE) places asset misappropriation schemes into nine different categories.

- **Skimming** is any scheme that involves cash stolen from an organization before it is recorded in the organizations records.
- **Cash larceny** includes any scheme that involves cash stolen from the organization after it has been recorded in the organizations records.
- **Billing** schemes occur when a person causes his/her employer to issue a payment by submitting invoices for fictitious goods or services, inflated invoices, or invoices for personal expenses.
- **Check tampering** schemes involve a person stealing from an organization by forging or altering a check or by stealing a check intended for another payee.
- **Expense reimbursements** is any scheme in which an employee claims a reimbursement of false or inflated business expenses.
- **Payroll** schemes occur when an employee causes his/her employer to issue a payment by making a false claim for compensation (i.e. ghost employees or excess overtime)
- **Cash register disbursements** schemes involve an employee making false entries on a cash register to hide the fraudulent removal of funds.



- Cash on hand misappropriations involve theft or misuse of cash that is held within the organization.
- Non-cash misappropriations are the result of employees stealing or misusing physical assets belonging to the organization.

Skimming and cash larceny are schemes that target incoming receipts; while the next five categories listed above focus on outgoing disbursements.

WHAT CAN YOU DO

As has been noted in previous issues of F⁴, billing schemes are the most common asset misappropriation scheme within the government sector. Some examples of billing schemes commonly take the form of shell companies, fictitious vendors, fictitious invoices, and personal purchases. In a recent ACFE study of 959 fraud cases, billing schemes were found in 23.9% of the cases (229 occurrences) and resulted in an average loss of approximately \$100,000.

A key control in limiting the potential for fraudulent billing schemes is ensuring adequate segregation of duties and proper checks and balances to ensure red flags do not go undetected. In addition, independent reviews of expenditures can be an important part of an internal control system. However, these controls only work if managers/reviewers understand the purpose behind the review and follow-up on all questionable transactions.

FRAUD CASE OVERVIEW

This case outlines a billing scheme involving both illegitimate payments resulting from fictitious invoices and inflated employee reimbursements. The perpetrator worked for the organization for over 12 years and was primarily responsible for assessing and coordinating the training needs of staff. In this capacity he would often work with outside consultants to aid in training development and implementation.

The perpetrator was able to submit fictitious invoices for a legitimate vendor and then divert the payments to himself and deposit the checks into an account that he had established using false identification. Over a two year period he submitted 26 false invoices totaling over \$490,000.

He was caught when the bank was conducting some routine testing and flagged the account for suspicion. They turned it over to law enforcement for

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investigation who were able to work with the companies internal auditors to uncover the fraud.

Once they had uncovered the fictitious invoices the internal audit department expanded their investigation to review expense reimbursement submitted by the perpetrator. They discovered he had been submitting legitimate reimbursements to his supervisor and then, when the supervisor was out, he would submit duplicate reimbursements to the second in command. He would use original receipts for the first reimbursement and then credit card receipts for the second. In addition, he would always ensure the amounts and dates were slightly different to enable the duplication to go undetected. He was able to obtain an additional \$32,923 over a three year period for the inflated reimbursement claims.

The company later discovered, as part of the investigation with law enforcement, that the perpetrator, whose annual salary was \$85,000, had been living a very lavish lifestyle. This included a yearly membership to a private club totaling \$25,000 per year, vacations to exotic locations, and the purchase of a \$350,000 cottage in a very exclusive neighborhood. The perpetrator was tried and convicted for the fraud.

The company had a process in place in which the financial department would send out monthly budget-versus-actual reports for all expenses incurred during the month, in this case the reports went to the perpetrators direct supervisor for review and sign-off. This report could have helped in detecting the fraud scheme. The department was consistently over budget and later it was discovered that the supervisor, despite signing each of the monthly reports, was simply signing the reports without conducting the necessary review. As a result of this negligence the supervisor was discharged from the organization.

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WHO CAN YOU CALL FOR HELP?

The State Controller's Division reminds state agencies that it is always available to answer internal control questions. If you have an internal control problem or an audit finding and need help in resolving it, please contact:

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Internal control tools are on the Web!

http://www.oregon.gov/DAS/SCD/internal_controls.shtml