

Fraud in Your Organization

Yes, It Can Happen to You.
How Do You Reduce Your Risks?



Fraud can occur in any organization. This seminar will help you think about fraud risks and provide tools to help you reduce the risk.

What is Fraud?

- Fraud is generally classified as corruption, misappropriation of assets, or through intentional false representations
- Essentially, fraud is stealing, lying, misleading, concealing, and deceiving

Management is responsible for making sure that

1. The people who are performing the various roles within the organization are performing them within the boundaries of acceptable business practices and behavior.
Management is responsible for minimizing the risk for **corruption**.
2. The assets under their control are used for their intended purposes.
Management is responsible for minimizing the risk for **misappropriation of assets**.
3. The financial statements faithfully represent (a) the financial condition of the organization, and (b) the transactions, events, and arrangements that occurred during the period.
Management is responsible for minimizing the risk for **misstatements**.



Fraud Happens Everywhere

Fraud Happens Here

A common attitude is that “it can’t happen to us.” This attitude leaves organizations vulnerable to fraud because appropriate measures end up not being taken.

A quick internet search of fraud occurring in Maine in the last few years revealed the following examples:

Nonprofit Organizations

Winslow Veterans of Foreign Wars
\$7,700
Cara Bird

Winslow Travel Soccer Club
\$15,000
Charles Spaulding

Winslow Wrestling Sports Booster Club
\$10,000
Wendi Willette

China Girls Field Hockey Team
Small amount
Wendi Willette

State Assistance
\$60,000
Wendi Willette

United Midcoast Charities
\$3.8 million
Russell Brace

Coastal Enterprises Inc
\$365,000
Stacey Backman

York County Community Action Corporation
Nearly \$1 million
Thomas Nelson

Hope Recovery Center (Limerick)
\$400,000
Ronald Petersen (MaineCare fraud)

Operation Tribute
Nearly \$1 million
Marcel Badeau (committed suicide)

Municipalities

Town of Newburgh
\$199,536
Cindy Dunton, Deputy Clerk

Town of Willimantic
\$46,000
Jacqueline Gorey, Treasurer and Tax Collector

Pleasant Point (Passamaquoddy Tribe)
\$33,000
Joseph Barnes, Police Chief

Town of Waterford
\$158,000
Jennifer Morin, Deputy Town Clerk

Town of Frenchboro
\$10,000
Dan Blaszczuk, Treasurer

Town of Bucksport
\$37,000
Darla Crawford, Deputy Town Clerk

Town of Amity
\$40,000
Darrell Williams, Town Manager

City of Wiscasset
\$90,000
Sandy Johnson, Clerk

Town of Rumford
\$1,500 (by stealing a piece of equipment and
selling it)
Timothy J. Gallant, Parks and Recreation
Superintendent

Town of Ludlow
\$3,000
Mary Beth Foley, Town Manager

Town of Chelsea
\$22,075 in fraudulent authorizations
Carole Swan, Selectwoman

Town of Anson
\$10,000
Claudia Viles, Tax Collector
(Also, investigation still underway of
disappearance of \$438,000 in excise taxes)

Noticeably absent is for-profit organizations. The probable reason for not finding them in an online search is that businesses generally keep their legal problems private, whereas not-for-profits and municipalities have public constituencies. This *should not* be interpreted as fraud occurring any less frequently in for-profit businesses.



The Association of Certified Fraud Examiners

www.acfe.com

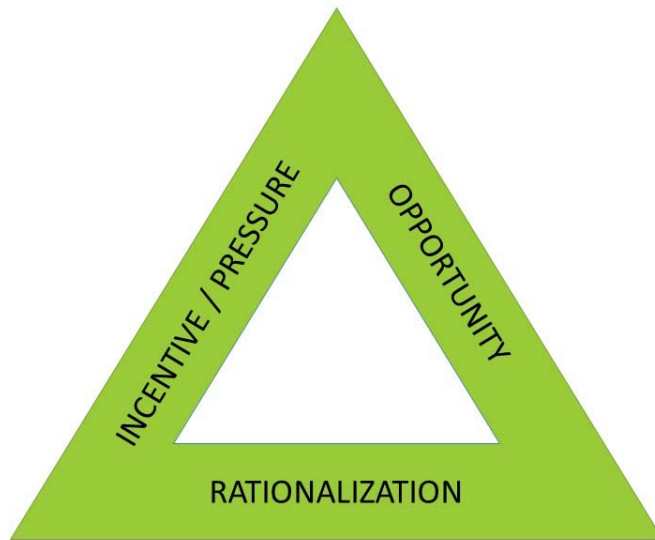
The Association of Certified Fraud Examiners is the world's largest anti-fraud organization and premier provider of anti-fraud training and education.

Their website has a great number of both free and for-fee resources related to understanding fraud, developing fraud prevention programs, and statistics on fraud.

They provide professional certification, Certified Fraud Examiner (CFE), to individuals with proven expertise in fraud prevention, detection, and deterrence.

The ACFE are experts in fraud prevention, detection, and deterrence. We recommend that you visit their website and access their many useful resources.

If your organization requires expert advice on fraud, a Certified Fraud Examiner (CFE) is an individual who possesses the knowledge, skills, and expertise to assist you. To be certified, the individual must meet educational and experiential requirements as well as passing a rigorous four-part test.



The Fraud Triangle

The Fraud Triangles is the most commonly-used framework for thinking about fraud risks.

- **Incentives and Pressures**
To commit a fraud, the average person requires some sort of incentive to do so. These incentives and pressures can be either internal or external.
Organizations cannot prevent external pressures, but they can be aware of them.
Organizations can be aware of and, preferably, limit the number of internal incentives that exist.
- **Opportunities**
To commit a fraud, an individual needs an opportunity to do so. This is where internal control activities come into play. The more robust your organization's internal control activities, the less likely a fraud will be committed.
- **Rationalization**
To commit a fraud, the average person needs to be able to rationalize the deed to himself or herself. The organization cannot dictate how an individual thinks, but it can determine what types of people it employees and it can influence employee ethics through a strong, positive tone at the top.



How Do You Handle Incentives?

External incentives and pressures to commit fraud are usually because of personal financial burdens. An individual may need money to make his or her mortgage payment or to pay other bills, or perhaps because he or she has a drug or gambling addiction, or simply has a desire for personal wealth and status symbols (large house, nicer car, etc.)

- What can an organization do about external incentives and pressures?

Internal incentives and pressures to commit fraud usually arise because the organization inadvertently creates them. For example, an employee may need to meet productivity or earnings expectations, or to keep within budgeted amounts, or, perhaps, their salary or bonuses are tied to performance.

- What can an organization do about internal incentives and pressures?



How Do You Limit Opportunities?

Of the three components of fraud risk, this one is the area over which organizations can exert the most effort towards fraud detection and prevention.

Opportunities to commit occupational fraud arise in areas where internal controls are weakest. Fraudsters will take the path of least resistance.

- Where is it that no one looking?
- When are others not looking?
- If someone looks, do they even know what to look for?

Segregation of duties / two-personal controls are probably the most effective in mitigating fraud risks. It's difficult for fraudsters to collude with others because there's a risk that whoever they attempt to collude with will not go for it (and, thus, expose them), or even if they do find someone to collude with, there's a chance their partner-in-crime will eventually stab them in the back. You need to be able to trust your fellow thief; which is a hard thing to do.



How Do You Influence Rationalization?

Rationalization is the thinking about or explaining behavior, particularly bad behavior, in such a way as to make it seem reasonable and with credible motives without analyzing the true and/or unconscious motives for doing something. Basically, it's the creation of more attractive explanations for why you're doing what you're doing.

What do think are some common rationalizations of fraudulent behavior?

Organizations can limit the likelihood of individuals rationalizing their behavior in two ways:

- Employing people who demonstrate sound ethics and not employing (to begin with) or terminating employees who don't demonstrate sound ethics.
- Setting an organizational-wide tone of ethical behavior.



Fraud Risk Management

Fraud risk management is the combination of prevention, detection, and response activities that your organization has in place to address fraud risks.

Prevention is the policies and procedures your organization has in place to reduce the risk of fraud from occurring in the first place.

- Hiring policies, vendor selection policies, codes of conduct, annual ethics training, aligning employee incentives with organizational goals, robust internal control activities, segregation of duties, management and board oversight and review, etc.

Detection is the policies and procedures your organization has in place to discover fraud when it does occur.

- Robust internal control activities, internal audits, external audits, hotlines and whistleblower mechanisms, data analysis, management and board oversight and review, etc.

Response is the policies and procedures your organization has in place to take corrective and remedial action after a fraud has been detected.

- Internal investigation protocols, external investigations, enforcement and accountability policies, disclosure policies and mechanisms, remedial action and root cause examination, management and board oversight and review, etc.



Questions