



Fraud Presentation

Presented by

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Perpetrators

- Employees are engaged in 64% of fraud cases
- Manager/executive fraud is 3.5 times as costly as fraud committed by employees
- Split evenly between men and women
- Fraud committed by males 3 times greater than fraud committed by women, although frequency is about the same



Perpetrators

- Only about 7% caused by person previously convicted of a crime
- Most are first-time offenders
- 33% of fraud cases involve two or more individuals
- In cases of collusion, the losses are 6 times the median loss for cases in which only one person is involved



Perpetrators

- The great increase in collusive fraud losses highlights the need for separation of duties



Victims

- Largest – public companies
- Smallest – non-profit organizations and governmental agencies
- However, organizations with less than 100 employees suffered larger median losses than companies with more than 100,000 employees



Why?

- Basic accounting controls missing
- Level of trust due to small entity size
- Less likely to be audited



Effects of Audits

- In companies that conduct either internal or external audits, the median loss was 35% less than companies that did not conduct audits



The biggest deterrent to fraud?

- **Oversight**

- The process itself can detect fraud
- Knowledge that auditors are engaged discourages fraud in the first place



What is oversight?

- Oversight consists of review by:
 - Managers
 - Auditors
 - Audit Committees
 - Other Employees



Frequency and Loss Comparison

Scheme	2002		1996	
	Pct. Cases	Median Cost	Pct. Cases	Median Cost
Cash larceny	6.9	\$ 25,000	2.9	\$ 22,000
Skimming	24.7	70,000	20.3	50,000
Billing schemes	25.2	160,000	15.7	250,000
Payroll schemes	9.8	140,000	7.8	50,000
Expense reimbursements	12.2	60,000	7.0	20,000
Check tampering	16.7	140,000	11.5	96,432
Register disbursements	1.7	18,000	1.3	22,500
Noncash misappropriations	9.0	200,000	10.7	100,000
Corruption schemes	12.8	530,000	14.8	440,000
Fraudulent statements	5.1	4,250,000	4.1	4,000,000



Distribution of Dollar Losses

Dollar loss range	Percent of all cases
\$1 - \$999	2.3
\$1,000 - \$9,999	10.2
\$10,000 - \$49,999	22.9
\$50,000 - \$99,999	12.1
\$100,000 - \$499,999	27.6
\$500,000 - \$999,999	8.5
\$1,000,000 - \$9,999,999	13.2
\$10,000,000 and up	3.2
Totals	100.0

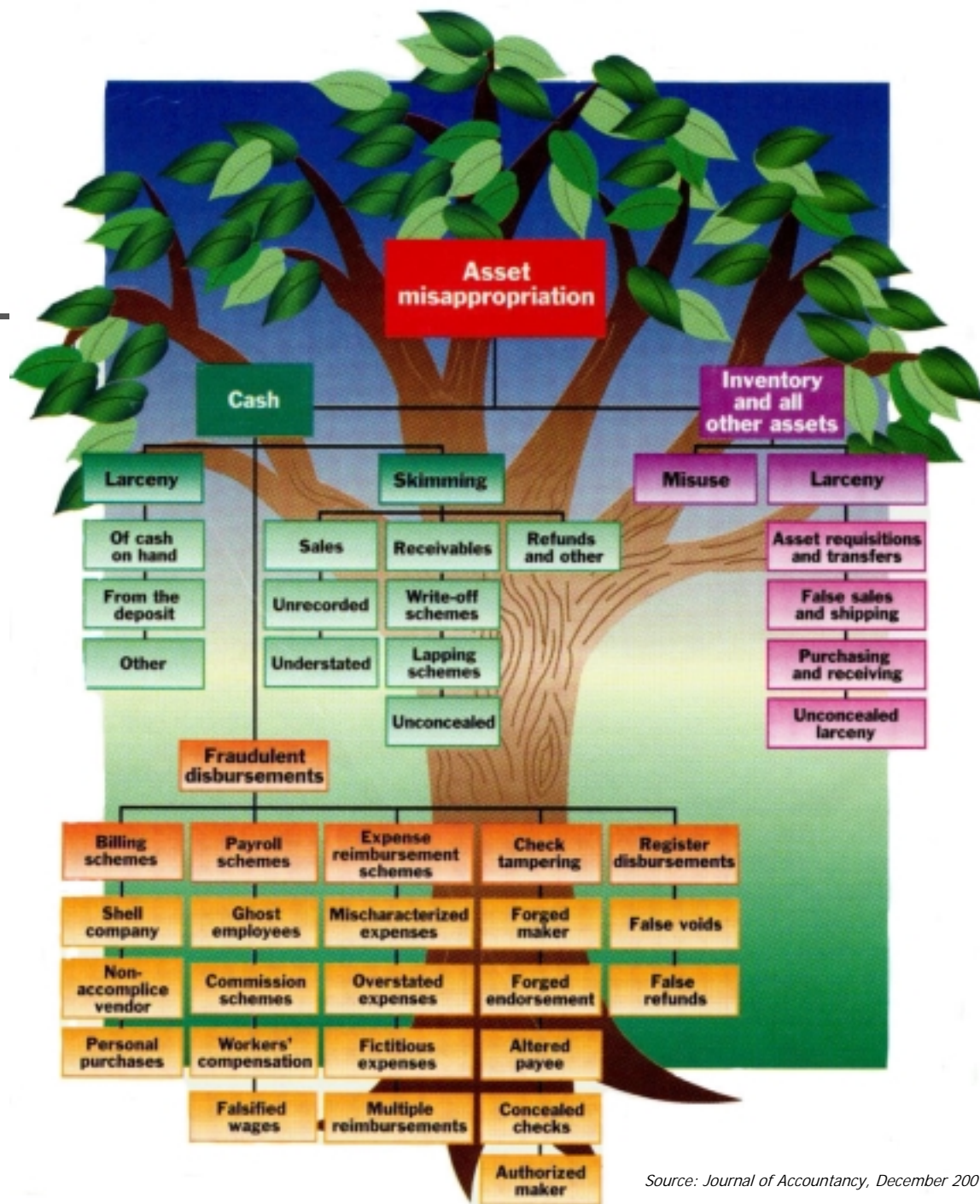


Comparison of Major Occupational Fraud Categories

Scheme	2002		1996	
	Pct. Cases*	Median Cost	Pct. Cases	Median Cost
Asset misappropriations	85.7	\$ 80,000	81.1	\$ 65,000
Corruption schemes	12.8	530,000	14.8	440,000
Fraudulent statements	5.1	4,250,000	4.1	4,000,000

*Readers will note that the sum of percentages in this column exceeds 100%. A number of the schemes that were reported in this survey involved more than one type of fraud; thus, they were classified in more than one category. In the 1996 survey, schemes were classified based on the principal method of fraud only.

The Fraud Tree





Skimming

- Business manager of church stole more than \$200,000
- **Fact:** Church attendance is increasing, yet weekly cash collections are declining
- **Action:** Auditor counted Sunday collection plate contribution before putting in safe



Skimming

- **Fact:** Deposits were less than pre-count
- **Action:** Video surveillance caught the manager helping himself to handfuls of cash
- **Lesson:** Dual control over cash would have caught this problem



Billing

- **Fact:** Internal auditors performed a routine purge of dormant accounts
- **Fact:** Although the company had not done business with these vendors in years, there were recent payments on the books
- **Fact:** A warehouse manager had issued \$535,000 of checks to dormant vendors



Billing

- **Fact:** The warehouse manager knew one manager in the company didn't log off of his computer when he went to lunch
- **Fact:** The warehouse manager made improper entries on that computer for more than two years
- **Lesson:** Proper computer security would have prevented this one



Fictitious Refunds

- **Fact:** A cashier for a small governmental body managed to steal \$150,000 in two years by issuing fictitious refund slips to non-existent purchasers of inventory and removing an equal amount of currency from a cash register



Fictitious Refunds

- **Fact:** He bragged about it
- **Fact:** Darwin was right
- **Lesson:** A CPA could have determined statistically that inventory shrinkage was high, but sometimes you just get lucky



Cash Larceny

- **Fact:** Larceny is the removal of cash from the organization *after* it has been entered into accounting records. Most of these schemes are detected through bank reconciliations and cash counts. This is not the favorite method and only about 3% of all cases involve larceny. Interestingly, the losses in larceny are only about 1% of all losses.



Cash Larceny

- **Fact:** The office manager of a 24-employee business insisted on handling certain bank transactions – deposits and bank reconciliations – by herself.
- **Fact:** She removed currency from the deposit and then altered the bank's copy of the deposit
- **Fact:** She left the company's copy unchanged
- **Fact:** The bank sent visual images of each deposit with the bank statement, making comparison very easy if any effort at all was expended in doing so



Cash Larceny

- **Fact:** She reconciled the bank accounts
- **Fact:** The company ran out of cash and checks started bouncing
- **Lesson:** As common in many businesses with poor cash controls, there was no separation of duties. Consider having bank statements go to the home of an independent employee who reconciles them



Expense

Reimbursement Schemes

- **Fact:** An upper-level manager of a company traveled frequently with other employees who noticed he always asked for extra blank receipts in restaurants and taxis
- **Fact:** A tip to the chief financial officer of the organization quickly resulted in an investigation that uncovered forged, duplicate and phony travel expenses



Expense

Reimbursement Schemes

- **Fact:** The manager's travel log didn't match the expenses that were turned in
- **Fact:** The first-time offender was sentenced to six months prison time, an unusually harsh sentence for an \$18,000 fraud



Check Schemes

- **Fact:** A St. Louis contractor paid \$5 million of fictitious invoices to companies set up by its chief financial officer
- **Fact:** Each company was listed as incorporated, although none were
- **Fact:** Each payee/vendor had only a post office box and an address in St. Louis – no street address



Check Schemes

- **Fact:** No Forms 1099 were sent
- **Fact:** The CFO reported every single dollar on a Schedule C on his tax return
- **Fact:** Because the scheme had gone on for more than three years, when it was uncovered it was impossible to get a refund of the taxes when he repaid approximately \$2 million of the proceeds from the fraud, thereby reducing the restitution to the employer



Payroll/Compensation Fraud

- **Fact:** This area has many schemes ranging from fictitious employees to actual persons who do not work at the company but are paid as if they do
 - Additionally, the schemes take the form of kickbacks for overpayments of wages, inflating the hours of the person entering payroll information as well as fictitious commissions and collusion on workmen's compensation injury claims
- **Fact:** Routine audits of payroll detail discourage many of these schemes



Warning Signs – Skimming

- Decreasing cash to total current assets
- Decreasing ratio of cash to credit card sales
- Flat or declining sales with increasing cost of sales
- Increasing accounts receivable compared with cash
- Delayed posting of accounts-receivable payments



Warning Signs - Larceny

- Unexplained cash discrepancies
- Altered or forged deposit slips
- Customer billing and payment complaints
- Rising “in transit” deposits during bank reconciliations



Warning Signs – Fraudulent Disbursements

- Increasing “soft” expenses (for example, consulting or advertising)
- Employee home address matches a vendor’s address
- Vendor address is a post office box or mail drop
- Vendor name consists of initials or vague business purposes (employees often use their own initials when setting up dummy companies; for example, “JTW Enterprises”)
- Excessive voided, missing or destroyed checks