

First Friday Fraud Facts+

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The Idaho State Controller's Office distributes this newsletter as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.



QUESTIONS OR COMMENTS:

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Welcome to First Friday Fraud Facts+ (F4+). This edition will cover using internal controls as tools to help prevent fraud.

INTERNAL CONTROLS TO HELP PREVENT FRAUD

Segregation of Duties

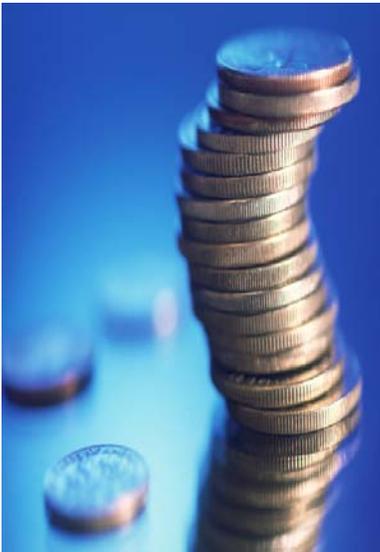
Segregation of duties (sod) is the idea that more than one person should be required to complete a task. The underlying goal of sod is to reduce the risk that a single employee or group of employees are able to perpetrate and conceal errors or fraud in the normal course of their assigned areas of responsibility. Although sod, or any internal control cannot completely eliminate the risk of fraud or errors, it can reduce the risk significantly. Examples of sod include:

- Require supervisors to approve subordinates' time sheets
- Require paychecks to be dispersed by someone other than the one authorizing or recording payroll transactions/checks
- When checks are received, stamp "For Deposit Only" and prepare a list of checks received before handing them over to the person responsible for deposits
- Ensure the same person isn't authorized to write and sign checks
- Separate purchasing functions from payables functions
- Require authorization for purchases and disbursements

Weekly/Monthly Reconciliations

Reconciliations are useful in identifying errors or fraud. Reconciliations also provide more assurance as to the credibility and completeness of transactions recorded. Here are some tips for performing reconciliations:

- Require the reconciliations to be performed by someone other than the person who completed the transactions
- Examine cancelled checks and bank statements to ensure checks are issued to legitimate vendors, checks are not issued out of sequence, and the signatures on the checks are from authorized signers
- Document that a reconciliation and review were performed



Oversight of Cash/Check Collections

Cash/Check mismanagement is the easiest way for fraud to occur. Internal controls are necessary to reduce the risk of fraud. Examples of oversight include:

- Have someone other than the person responsible for the cash/check collections reconcile cash/check receipts daily
- Prompt deposit of cash and checks collected
- Issue receipts for cash/check, using a pre-numbered receipt book or an automated point-of-sale device
- Conduct unannounced cash counts

Conduct Analytic Reviews

Analytic reviews can detect fraudulent activity because it allows comparisons to be performed on expected versus actual results. Examples of analytic reviews include:

- Monitor agency operations on a continual basis, comparing budgeted amounts to actual amounts
- Compare current revenues and expenditures to prior years results
- Explain significant variations

FRAUD CASE

This case involves employees from the California Franchise Tax Board (FTB), Secretary of State's Office (SOS), and a private courier service owner who engaged in a kickback scheme that allowed nearly a quarter of a million dollars to be stolen from the State of California.

The employees from the FTB and SOS were in a position to issue status letters or certificates to businesses regarding whether or not they were in good standing with the State. The employees were supposed to charge a \$15 to \$20 fee for the letter or certificate. The letters or certificates could only be requested in person.

Businesses would often use courier services to request and obtain the letters or certificates from the State. To avoid paying the fees, the courier service would pay the FTB employee \$300 to \$400 a week in order to not have to pay the required fees for the six or seven letters the courier requested each day. The employee would not make entries in the control log or photocopy the letters as were required by policy. This eliminated any evidence of the transactions. The courier also engaged in a similar arrangement with an employee from the SOS's Office.

The employees from the FTB and SOS as well as the courier service owner were convicted of bribery and ordered to pay a total of \$227,430 in restitution to the FTB and the SOS. One State employee received a seven-day jail sentence and the other received three years probation. The courier was sentenced to 14 days in jail.

FISCAL FOCUS:

COSO has issued the 2013 Internal Control-Integrated Framework (Framework). The Framework published in 1992 is recognized as the leading guidance for designing, implementing and conducting internal control, and assessing its effectiveness. The 2013 Framework is expected to help organizations design and implement internal control in light of many changes in business and operating environments since the issuance of the original Framework. The new Framework will also broaden the application of internal control in addressing operations and reporting objectives and clarify the requirements for determining what constitutes effective internal control.

