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 efficiency of internal controls that help fight fraud, waste, and abuse.

EFFICIENT INTERNAL CONTROLS

Not all internal controls are created equal. Some controls are more efficient than others in fighting fraud, waste, and abuse. Internal controls should provide reasonable assurance that the necessary safeguards have been put into place to deter fraud, waste, and abuse. Excessive controls are costly and counterproductive, but having too few controls increases an entity's risk factors. There needs to be a balance between the costs and benefits of any internal control. The cost should never be greater than the benefit provided by the control.

The following are good examples of efficient internal controls that can help fight fraud, waste, and abuse:

Use of P-Cards

Purchasing cards, often referred to as p-cards is one area where abuse and fraud can easily take place if the proper safeguards are not implemented. Efficient oversight can include:

- Limit the number of cards issued and who is authorized to use those cards
- Implement a policy that allows the cards to be used for agency purposes only; do not allow use for employee personal items with subsequent reimbursement to the agency
- Set spending limits
- Educate employees on the proper usage of p-cards
- Require employees to submit original receipts for purchases
- Examine monthly statements to ensure charges are for agency business

Automate Manual Processes

Any process that can be automated will decrease the risk associated with fraud, waste, and abuse. Automating manual processes will also allow for increased productivity and efficiency by allocating precious resources to important projects or tasks. Processes that can be automated include:

- Duplicate payment detection
- Subledger reconciliations
- Payments to vendors
- Approval processes
- Reporting

Flowcharting Processes

Documentation is a key element in efficient internal controls. Creating flowcharts of key processes will allow the process to be documented in a straightforward manner. The flowchart can be used to easily determine if a process is functioning as it was designed or where any deficiencies may exist.

Checklists

Checklists allow for a direct and concise way to evaluate an agency's internal controls. Here are some examples of a few areas a checklist might address:

- Segregation of duties
- Completeness of data
- Checks and balances
- Information technology
- Capital assets
- Cash collections
- Accounts payable

FRAUD CASE

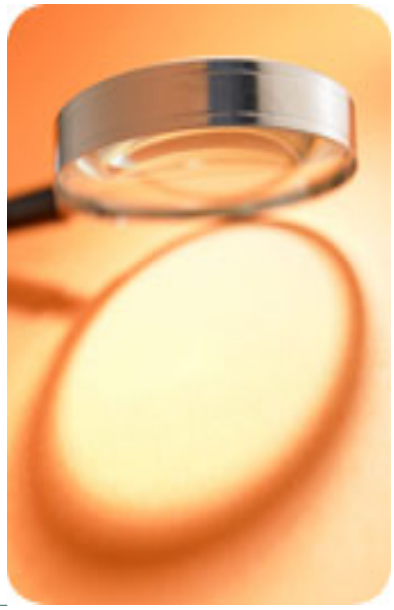
The fraudster in this particular case was employed by the National Institutes of Health, and the National Institute of Diabetes and Digestive and Kidney Diseases, as a purchasing agent and procurement analyst. As part of her duties, the employee was issued a government credit card to purchase goods and services for official use. The employee admitted that between May and December 2011, she used two government issued credit cards to purchase goods and services that were not intended to be, nor were they used for government purposes.

Specifically, the purchases included approximately 119 iPads and other electronics, designer perfume and clutch bag, a queen-size mattress set, and other items. The employee directed the retailers to ship many of these items to her home. The employee kept some of the items for her personal use and resold other items by listing them for sale on an internet website.

The employee also used her government credit card to purchase services for her personal use, including house cleaning and cell phone service.

To avoid detection, the employee falsified documents and disputed some of the charges with the credit card issuer, falsely claiming that she had not purchased the items in question. The loss to the government from the unauthorized purchases is between $70,000 and $120,000.

The employee subsequently pleaded guilty and was sentenced to six months in prison, followed by six months of home detention as part of three years supervised release, as well as 100 hours of community service. The employee was also ordered to pay restitution in excess of $106,000.

FISCAL FOCUS:

The National Association of State Comptrollers (NASC) has developed several internal control checklist documents that are free to use. The checklist documents are a great tool for analyzing or implementing internal controls. The documents can be found on the NASC website at: http://www.nasact.org/nasc/committees/multistate/#Resources.