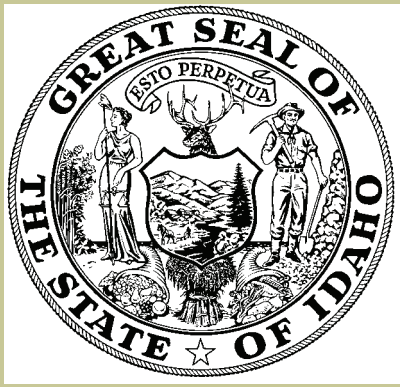
First Friday Fraud Facts+

March 1, 2013

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.



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Welcome to First Friday Fraud Facts+ (F^4+). This edition will cover five myths of fraud and designing a fraud prevention program.

Five Myths of Fraud

Myth #1: Our organization does not have an internal fraud problem.
While organizations would like to believe they have good employees and adequate controls to mitigate the risks of fraud, statistics say otherwise. According to the Association of Certified Fraud Examiners (ACFE) 2012 Report to the Nations, the typical organization loses an estimated 5 percent of its annual revenues to fraud committed by employees (e.g., false billing schemes, bribery schemes, inflated expense reports, recording fictitious revenues).

Myth #2: Most people are honest and will not commit fraud.
While it is wise to hire those with a track record of honesty, past behavior does not necessarily predict future behavior. According to the aforementioned ACFE report, 87 percent of employees and executives who commit fraud against their employer have never been charged or convicted of a fraud-related offense. This means it's nearly impossible for organizations to predict when and who is going to commit fraud.

Those who commit fraud come from all social classes and economic backgrounds. From clerks to executives, no one is immune. If outside pressures exist, and given a strong motivation and ample opportunity, any employee can commit fraud against their employer.

Myth #3: Our organization will be protected against fraud as government regulations are followed.
Unfortunately, the current accounting rules and regulations do not provide protection against fraud. In order to effectively deter and mitigate the risks of fraud, organizations must create, implement, and follow policies and procedures specifically designed to deter and detect fraud. A good fraud prevention program will actively deter and mitigate the risks of fraud while still complying with applicable regulations.

Myth #4: Small frauds are not serious enough for management to worry about.
Virtually every big fraud started as a small fraud at one point. Whether it is a minor theft of cash or a financial statement manipulation, what starts out as a small fraud can quickly escalate into a major fraud scheme. A theft of $500 may not seem significant enough for management to devote time and effort to the problem. But what if an employee was stealing $500 a week for three years? A theft of $78,000 over time could be material to the organization.

Myth #5: Fraud will be detected by our auditors.
History has shown that an organization's independent auditors cannot be relied upon (nor expected) to find fraud. This is true primarily because audits are not designed to detect fraud. They are designed to give 'reasonable assurance' that the numbers reported on the financial statements are materially correct.

Auditors can have a tendency to become complacent with their clients. As auditors see the same things year after year, they may stop paying close attention. Fraudulent employees are likely to be very careful and understand and know what audit procedures are coming.

FRAUD CASE

This case involves a former Florida postal employee making false statements to obtain workers' compensation benefits. In May 2009 the former postal employee reported she suffered a lower back injury during the annual letter carriers' food drive. As a result, she was relieved of her letter carrying duties and placed on 'light duty'.

Although she claimed that she could only handle 'light duty' in her government job, she competed in more than 80 athletic events, including 5k races, 10k races, triathlons, and marathons (including the Boston Marathon).

Between June and December 2009, the perpetrator told her treating physicians and physical therapists that her back injury had not improved, and she was unable to twist and bend at the waist (activities associated with the delivery of mails). Photographs and videos taken during the same seven month period show the postal employee running barefoot on gravel in a cross-country event, and swimming, cycling, and running in a triathlon. Evidence presented at her trial demonstrated that her race times actually improved over those times recorded prior to her reported date of injury.

The former postal employee was found guilty by a federal jury of healthcare fraud and making false statements to obtain workers' compensation benefits. She was sentenced to three years of probation and ordered to pay restitution of $26,714 plus a $400 special assessment.

Fiscal Focus-Fraud Prevention Program

Before an organization can design a fraud prevention program to help deter and mitigate the risk of fraud, management must realize the organization is not immune to the possibility of fraud and, consequently, internal controls are necessary to protect the organization's assets. The applicable steps for creating a fraud prevention program can vary significantly from one organization to another.

On the State Controller's Office website, www.sco.idaho.gov, (under Accounting, Internal Controls) you can find various Management Control System tools to assist in the design of your organization's fraud prevention program. The National Association of State Auditors, Comptrollers and Treasurers (NASACT) website also provides valuable resources for establishing strong internal controls, including documents and tools used in other states: http://www.nasact.org/nasc/committees/multistate/index.cfm

Announcements

Annual Internal Control Training held at the State Controller's Office:

a) Tuesday, April 16, 2013, from 8:00 a.m. — 10:00 a.m.

OR

b) Wednesday, April 17, 2013, from 8:00 a.m. — 10:00 a.m.

Learn why internal controls are important to your organization and who is responsible for ensuring they are practiced. The training will cover the objectives of internal controls, including the COSO's 17 principles, and a round table style discussion, which will provide participants an opportunity to share their internal control concerns, insights, and receive feedback.

CPE: 2 Free

Registration details coming soon.