

First Friday Fraud Facts+

January 3, 2014



QUESTIONS OR COMMENTS:

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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.

Welcome to First Friday Fraud Facts+ (F4+). This edition will discuss different types of data analyses that can help identify potential fraud.

Computing power and modern applications have improved our ability to perform complex analyses on data to detect anomalies. With regards to the accounting profession, this capability can prove rather useful when trying to detect fraudulent activities.

What follows is a discussion of different analysis techniques that a person can use to identify fraud. The list is by no means complete, and any one technique should not be used exclusively to detect fraudulent activities. Use multiple techniques to detect and then corroborate your findings.

ANALYSIS TOOLS

Gaps

Missing items in a series or sequence, which might include missing claim numbers, check numbers, or inventory tags.

Duplicates

There are certain items that should not be duplicated. For instance, vendor invoice numbers should be unique. Duplicate numbers could indicate fraudulent invoices or invoices submitted for multiple payments.

Sorting or Indexing

This technique is similar to identifying duplicates. However, instead of identifying duplicate document numbers, you look for any unexpected document number series. For instance, if the document numbers are supposed to be numerical and you see alpha characters, more investigation is warranted.

Trend Analysis

Trend analysis compares information over several years, groups, or locations. Comparing multiple years worth of data side-by-side can help identify potentially fraudulent increases or decreases.



Regression Analysis

This technique provides a means of predicting values or comparing actual values (known) with predicted values (unknown) to identify anomalies. For example, a building manager collects cash for space rental and fails to register the lease. Regression analysis can predict the number of leased spaces based on the usage or utilities such as water or electricity.

Benford's Law

This "law" compares the frequency of the occurrence of numerical digits to a theoretical frequency distribution. A review of accounts payable invoices can highlight situations where invoice amounts (with only the cents altered to avoid detection as a duplicate) occur more often than predicted.

Horizontal and Vertical Analysis

Horizontal analysis involves comparing account balances from period to period, while vertical analysis is used to compare key ratios over multiple periods. For example, administrative expenses increased 8 percent when typically year-to-year increases only amount to 1 to 2 percent. Or, as a percentage of sales, selling expenses are calculated at 18 percent when they typically range from 8 to 10 percent.¹

Data Matching

Data matching involves comparing different sets of data collected for seemingly unrelated purposes. See the fraud case below for an example of data matching.

RED FLAGS

- Missing documents
- "Stale items" on bank reconciliations (they just never seem to go away).
- Excessive voids or credits.
- Payee names and address are the same as customer names and addresses.
- Photocopied documents.
- Past due accounts receivable increasing.
- Number or dollar amounts of reconciling items increasing.
- Altered documents.
- Duplicate payments.²

FRAUD CASE

In 2010, Idaho Department of Health and Welfare officials conducted a data matching pilot study in Kootenai County to determine the extent to which incarcerated Individuals were receiving food stamp (SNAP) benefits.

The data matching indicated that 124 of 350 individuals in the Kootenai County jail were receiving benefits and identified \$26,985 in overpayments.

Department officials expanded the scope of the project and collected additional jail and prisoner information from across the state. The first expanded match revealed 3,000 incarcerated individuals who were receiving welfare benefits.

In 2011, 207 of the jail match cases were processed identifying \$20,539 of fraudulently received benefits. In 2012, 206 cases were processed resulting in \$90,777 of identified benefits. And in 2013, officials worked 716 cases and identified \$275,749 worth of benefits.³

¹ David Coderre, *Computer Aided Fraud Prevention and Detection: A Step by Step Guide*. 2009.

² Fraud Detection—HCC Learning Web. <http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=5&ved=0CEoQFjAE&url=http%3A%2F%2Flearning.hccs.edu%2Ffaculty%2Fwilliam.nantz%2Facnt1391%2Fethics-for-accountants-1391-class-materials%2Faccounting-fraud-lecture-notes&ei=NXWCUqCVC87XigLbtIGYDA&usg=AFQjCNH940QMJybut9uveOZW09ROabmXA>. Accessed November 12, 2013.

³ Presentation given by Benjamin Johnson on October 17, 2013.

ANNOUNCEMENTS

1) Mark your calendars to attend one of the following Idaho SCO's Annual Internal Control Training sessions:

a) Tuesday, April 15, 2014, from 10:00 a.m. — 12:00 p.m.

OR

b) Wednesday, April 16, 2014, from 8:00 a.m. — 10:00 a.m.

2) The 2013 Comprehensive Annual Financial Report (CAFR), Citizen-Centric Report, and the Legal Basis Financial Report are now available on the SCO's website at www.sco.idaho.gov. Under "What's New" click on "2013 Comprehensive Annual Financial Report for the State of Idaho" to access all three reports online.

