

# First Friday Fraud Facts

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*The Oregon State Controller's Office created this newsletter. With their permission, the Idaho State Controller's Office edits and 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:

Matt McBride, CGFM  
Financial Specialist

P.O. Box 83720  
Boise, ID 83720-0011

Phone: (208) 332-8805

Fax: (208) 334-3415

E-mail: [mmcbride@sco.idaho.gov](mailto:mmcbride@sco.idaho.gov)

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Previous issues of the First Friday Fraud Facts (F<sup>4</sup>) have covered the topics of payroll and human resources fraud. This issue will cover some of the common fraud schemes in several different functional areas including travel, vendor payments, purchasing, accounts payable, cash, accounts receivable, and revenue. This issue will also discuss some of the ways to identify fraud schemes and outline reasons why they go undetected despite good internal controls which may be in place.



## COMMON FRAUD SCHEMES AND DETECTION METHODS

Travel fraud can be perpetrated by duplicate claims as well as false claims. Duplication can come in the form of claims for personal mileage while also claiming the use of a rental car; claims for travel related charges that have been paid on a travel card or paid in advance (meals, hotels, airfare, etc.); overlapping travel dates; and travel dates where leave was incurred but claims are still being made.

Vendor and purchasing fraud schemes are often carried out when a conflict of interest is present and fraudulent vendors are involved. Common ways to identify possible conflicts of interest or false vendors is by checking for address or phone number matches between employees and vendors. Fraudulent vendors can also be identified by checking for some of the following potential indicators:

- Multiple vendors with the same address
- Sequentially numbered invoices



- Repeated invoices just below approval thresholds
- Invalid federal tax identification numbers
- Vendor names that are very similar to other well known vendors

Other common vendor and purchasing fraud schemes include antitrust violations, such as bid rigging and kickbacks (which have been covered in previous issues of this publication).

Accounts payable and cash fraud schemes often take the form of paying personal bills with business funds, making payments to fictitious suppliers, receiving kickbacks from vendors, ordering personal items while placing a legitimate business order, theft from petty cash funds and cash registers, failing to record cash receipts and stealing the funds, and altering bank deposits.

Accounts receivable and revenue fraud is most commonly found in the form of skimming, lapping of receivables (covering up stolen payments with payments from other accounts), forging checks, retaining cash receipts while writing off the debt as uncollectable, altering credit card receipts, kickbacks, and other conflicts of interest. Some of the signs of skimming include reductions in sales while inventory levels also decline; increases in inventory shortages; increased cashier overages or shortages; or a high volume of cashier no sales, voids, corrections, or overrides.

### **WHY FRAUD GOES UNDETECTED**

There are many reasons internal controls fail to detect fraud. Often they are circumvented because individuals are simply “going through the motions” and are not thinking about the purpose or why the process is in place. Another common problem is a failure to acknowledge warning signs. Many people think fraud is something that happens in other organizations but not in theirs. They trust the people they work with and believe they are honest and would not perpetrate a fraud scheme. Other times, signs of fraud go undetected or unquestioned in an attempt to avoid conflict and confrontation, or because people feel that it is not their place to intervene or question others. Sometimes employees lack the knowledge to identify the issue.

New employees may find themselves in a unique position to question the processes in place and can often provide a non-biased perspective. However, people may feel they are not experienced enough to question the

processes or procedures in place, or the supervisor may not view criticism and questions as an opportunity to reflect on the process and ensure it is current and appropriate.

Controls can also fail because they have been overridden by individuals who believe they have a good and justified reason, or the controls do not apply to them for one reason or another. Controls are also overridden or bypassed due to excessive workloads, which result in not enough time to perform controls procedures.

### WHAT YOU CAN DO

Some common things management can do to instill a culture of honesty and ethical behavior is to develop appropriate oversight processes and ensure antifraud processes and controls are in place. Some methods to achieve or increase the chances of achieving a culture of honesty and high ethical standards are:

- Creating a positive workplace environment
- Hiring and promoting good employees
- Providing adequate training for employees
- Setting the appropriate tone at the top within the organization

Developing appropriate oversight processes can include:

- Effective use of the internal audit function
- Ensuring appropriate oversight by an audit committee or equivalent group
- Providing adequate management oversight
- Encouraging open and candid dialogue with auditors
- Making use of entity risk assessments

Ensuring appropriate antifraud processes and controls are in place may include:

- Identifying and measuring fraud risks
- Mitigating those risks where possible
- Designing and implementing appropriate internal controls
- Monitoring compliance with internal controls once they are in place
- Staying alert to warning signs

Many organizations also use data mining for payroll and employee information, and vendor and accounts payable information to help detect potential fraud.



**ANNOUNCEMENTS FROM THE IDAHO STATE CONTROLLER'S OFFICE**

1) Last Chance to Register for Closing Package Training! (PLEASE Note the Start Time for Wednesday is 8:30 a.m.)

When: Intermediate Training Session — Monday, May 9, 2011, 1:30 p.m. — 3:30 p.m.

OR

Beginning Training Session — Wednesday, May 11, 2011, 8:30 a.m. — 11:30 a.m.

Review the purpose of the Closing Packages, what changes have been made, challenges presented in prior years, and new accounting standards. Free CPE is offered for these sessions. To register, please have your supervisor submit an email to Jennifer Bonilla at [jbonilla@sco.idaho.gov](mailto:jbonilla@sco.idaho.gov). Supervisor authorization is required for all SCO training.

2) Annual Internal Control Training:

When: Tuesday, May 10, 2011, 2:30 p.m. — 4:30 p.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 17 points of focus and a round table style discussion, which will provide participants an opportunity to share their internal control concerns and receive feedback.

CPE: 2 Free

To register, please have you supervisor submit an email to Jennifer Bonilla at [jbonilla@sco.idaho.gov](mailto:jbonilla@sco.idaho.gov). Supervisor authorization is required for all SCO training.