

First Friday Fraud Facts+

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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 expense reimbursement fraud.

EXPENSE REIMBURSEMENT FRAUD

Expense reimbursement fraud occurs when an employee submits fictitious or inflated business expenses to their employer for reimbursement. Expense reimbursement fraud is one of the more prevalent and costly forms of employee theft.

THE COST

Based on the "2014 Global Fraud Study" by the Association of Certified Fraud Examiners (ACFE), the median loss due to expense reimbursements fraud is \$30,000 and the median duration of the schemes is 24 months. The study found that in 75.6% of the cases involving expense reimbursement schemes, the perpetrator was also involved in at least one other form of occupational fraud. The study also found that 27% of fraud by upper management included some sort of expense reimbursement scheme.¹

RATIONALIZING EXPENSE REIMBURSEMENT FRAUD

Here are a couple of situations in which employees rationalized committing reimbursement fraud:

- An executive claimed business expenses for the cost of his daughter's wedding. He justified the expense reimbursement since business clients were invited to attend the wedding.
- An executive claimed business expenses for the cost of a flat screen TV for his home. He justified claiming the expense since the television would be used for videoconferencing.²

EXAMPLES OF EXPENSE FRAUD SCHEMES

- Getting duplicate receipts from merchants or cab drivers, and then altering the duplicate receipts to receive additional reimbursements.



- Double billing for hotel stays, plane tickets, and rental cars, and then depositing the extra payments received.
- Dining with the family and characterizing the expense as a business expense.
- Altering the amounts on the receipts, like changing the 5 to a 6, the 1 to a 7, or the 3 to an 8.
- Receiving reimbursement for items purchased for the business and then selling the items online.²

RED FLAGS

- Photocopies of the receipts are provided instead of originals.
- Overall expenses for the organization are considerably over budget compared to other years.
- Expense reimbursement amounts are regularly just below the threshold for review.
- Excessive or unusual reimbursements to one employee compared to other employees in the organization.
- A lack of supporting documents.
- Employee/manager becomes defensive when asked to provide supporting documents.
- Purchases appear to be for non-business products or services.
- Parts of the dates or amounts on receipts appear to be altered or missing.^{2,3}

FRAUD CASE

Three employees of the Oklahoma Department of Human Services were charged with submitting false reimbursement requests to the state agency. According to the article, Sherry, a former supervisor, had submitted fraudulent travel reimbursement requests and collected more than \$25,000 over a nearly three year period. Bill, the director of the field operations division, had allowed for the travel reimbursements, and Debra, the county director, had approved the reimbursements.

Sherry lived 58 miles from the agency's physical office; about a two hour round trip. To help Sherry with the cost of traveling to work, Bill instructed her to open and maintain an agency office in a town located between Sherry's home and one of the agency's other locations. However, Sherry didn't open the office, but submitted reimbursement claims for the 40 mile trip between the fictitious agency office and the physical office where she actually worked.

According to the investigation, Bill told Sherry to maintain an office so she could have "a place to hang her hat." Bill stated that it wasn't his fault that Sherry didn't open the office "as he didn't go check up on her to see if she was following the directive." The DHO office of inspector general turned the findings over to the local district attorney for felony charges.

Following the charges, Sherry resigned after working more than 22 years for the agency, and Debra, the county director, resigned after 23 years with the agency. Bill had worked for the agency for 35 years before retiring prior to the investigation and subsequent charges. No further detail is readily available regarding the charges or convictions.⁴

RECOMMENDATIONS FOR STRENGTHENING INTERNAL CONTROLS

- Have a strict expense reimbursement policy of what is allowed and not allowed. Require that all employees read and follow the policy.
- Educate management and others responsible for approving expense reimbursements on how to detect questionable items and how to effectively question employees about those items.
- Periodically audit a sample of reimbursements.
- Follow through on any disciplinary action against those who violate the organization's reimbursement policy to deter others from committing violations.⁵

¹ Association of Certified Fraud Examiners. "2014 Report to the Nations on Occupational Fraud and Abuse." <http://www.acfe.com/rtn/docs/2014-report-to-nations.pdf>. Accessed May 11, 2015.

² Cougar Mountain. "Expense Reimbursement Fraud, Signs to Watch for." April 29, 2013. <http://www.cougarmtn.com/expense-reimbursement-fraud-signs-watch/>. Accessed March 5, 2015.

³ Mark Breuer. "6 Signs Your Employees Are Abusing Expense Reports." *Insperty*, December 3, 2014. <http://www.insperity.com/blog/6-signs-your-employees-are-abusing-expense-reports/>. Accessed May 11, 2015.

⁴ Nolan Clay. "Three former DHS officials accused of false travel claims scheme." *NewsOK*, February, 6, 2013. <http://newsok.com/three-former-dhs-officials-accused-of-false-travel-claims-scheme/article/3752718>. Accessed May 11, 2015.

⁵ Michael N. Kahaian and Raymond A. Roth III. "The Impact of Expense Reimbursement Fraud." *SRR*, Fall 2013. <http://www.srr.com/article/impact-expense-reimbursement-fraud>. Accessed May 11, 2015.

