

Fraud Detection

Presented by:

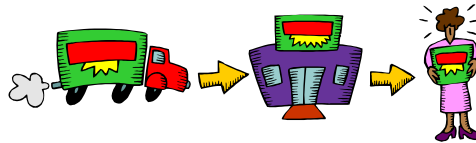
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Of

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Steps to Detecting Fraud

1. Systems Analysis
2. Communication
3. Data Mining
4. Vendor Audits



System Analysis



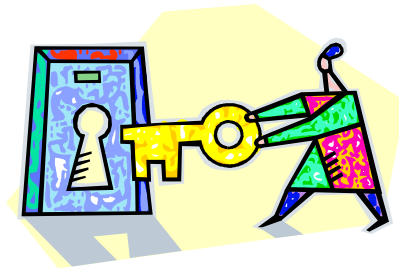
- Obtain Understanding of the System
- Focus on Opportunities for Compromise *“Think Like a Thief”*
- Identify Key Controls
- Identify Weaknesses

Obtain an Understanding

- Thorough Reading of Systems and Accounting Manuals, Policies and Procedures and Other Supporting Documentation
- Flowcharting of Systems
- Examination for Obvious Compromise Opportunities

Focus on Key Internal Controls

- Segregation of Duties
- Supervisory Controls
- Receiving Controls
- Authorization Controls
- Reconciliation Controls
- Recording Controls



Anti – Fraud Controls

1. Surprise Audits
2. Job Rotation/
Mandatory Vacation
3. Hotline
4. Employee Support
Programs
5. Fraud Training for
Execs & Mngt.
6. Anti-Fraud Policy
7. External Audit of
Internal Controls
8. Code of Conduct
9. Mngt. Review of
Internal Controls
10. Outside Audits

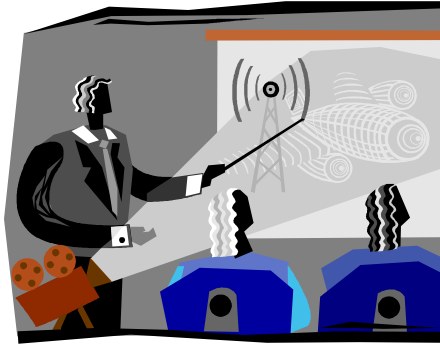
Communication as a Deterrent

- **Communication and Training Significantly Reduces Fraud.**
- **Why?**
 - 46% of All Frauds are Discovered Through Tips from Employees, Vendors and Others (ACFE Study)
- **Therefore:**
 - These Individuals Need to be Aware of the Organization's Method of Communication

Ethics & Fraud Policy

- **Articulates the Core Values of the Organization**
- **What Behavior is Acceptable and What is Not**
- **What Happens if I Discover **FRAUD**?**

Fraud Awareness Training



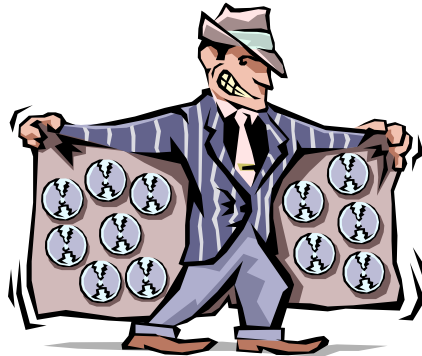
- **Increase Your Audit Staff by Training:**
 - Accounts Payable
 - Procurement/
Purchasing
 - Operations

Employee Notices

- **Employees Must be Put on Notice That They Have an OBLIGATION**
 - Employment Application
 - Bulletin Board Postings
 - Annual Conflicts of Interests Disclosures
 - Intranet Postings

Vendor Notices

- **Due Diligence**
 - Vendor Application
 - Independent Checking
- **Vendor Copy of Ethics and Fraud Policy**
- **Annual Notification**
- **Vendor Audits**



Expectations of Vendors

- **Furnish all goods, materials and services to the Agency as contractually required and specified**
- **Submit complete and accurate reports to the Agency and its agents as required.**
- **Not seek, solicit, demand or accept any information, verbal or written, from the Agency or its agents that provides an unfair advantage over a competitor.**
- **Not engage in any activity or course of conduct that restricts open and fair competition on Agency – related transactions.**

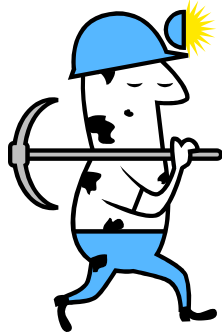
Expectations of Vendors

- Not engage in any course of conduct with Agency employees or its agents that constitutes a conflict of interest, in fact or in appearance.
- Not offer any gifts or gratuities to Agency Employees (including meals, tickets to special events or other items of value or
- engage in other conduct that violates the Agency's Code of Business Ethics, law or regulation.
- Report to the Agency any activity by an Agency employee or working partner that is inconsistent with the Agency's Code of Business Ethics, law or regulation.

Data Mining

- **Computer – The Most Effective Weapon in the Examiner's Arsenal**
- **Sophisticated and Not So Sophisticated Data Mining Techniques Often Finds Fraud**
- **Data Rich Environments are Ideal but Not Necessary**

Typical Files for Mining Techniques



- Employee Annual Earnings
- Employee Master File
- Master Vendor File
- Vendor Payment Files
- Purchase Order Files

Vendor Audit

- **Most Effective Means to Discovering:**
 - Fictitious Companies
 - Corruption Schemes
 - Vendor Frauds
- **Approach to Audit**
 1. Vendor Research
 2. Forensic Examination of Documents and Files
 3. On-Site Examination

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Questions or Comments?