

# You receive an allegation of fraud, now what?

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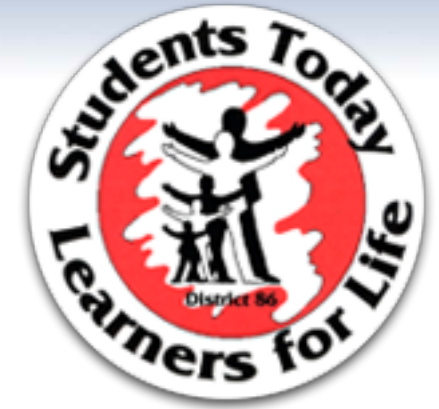
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# Introductions

Tamara Mitchell, Moderator

*Asst Superintendent for Business and Financial Services*

*Joliet Public Schools District 86*



James M. Sullivan, JD, CFE, CIG, Speaker

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# Fraud Incident Management Protocol

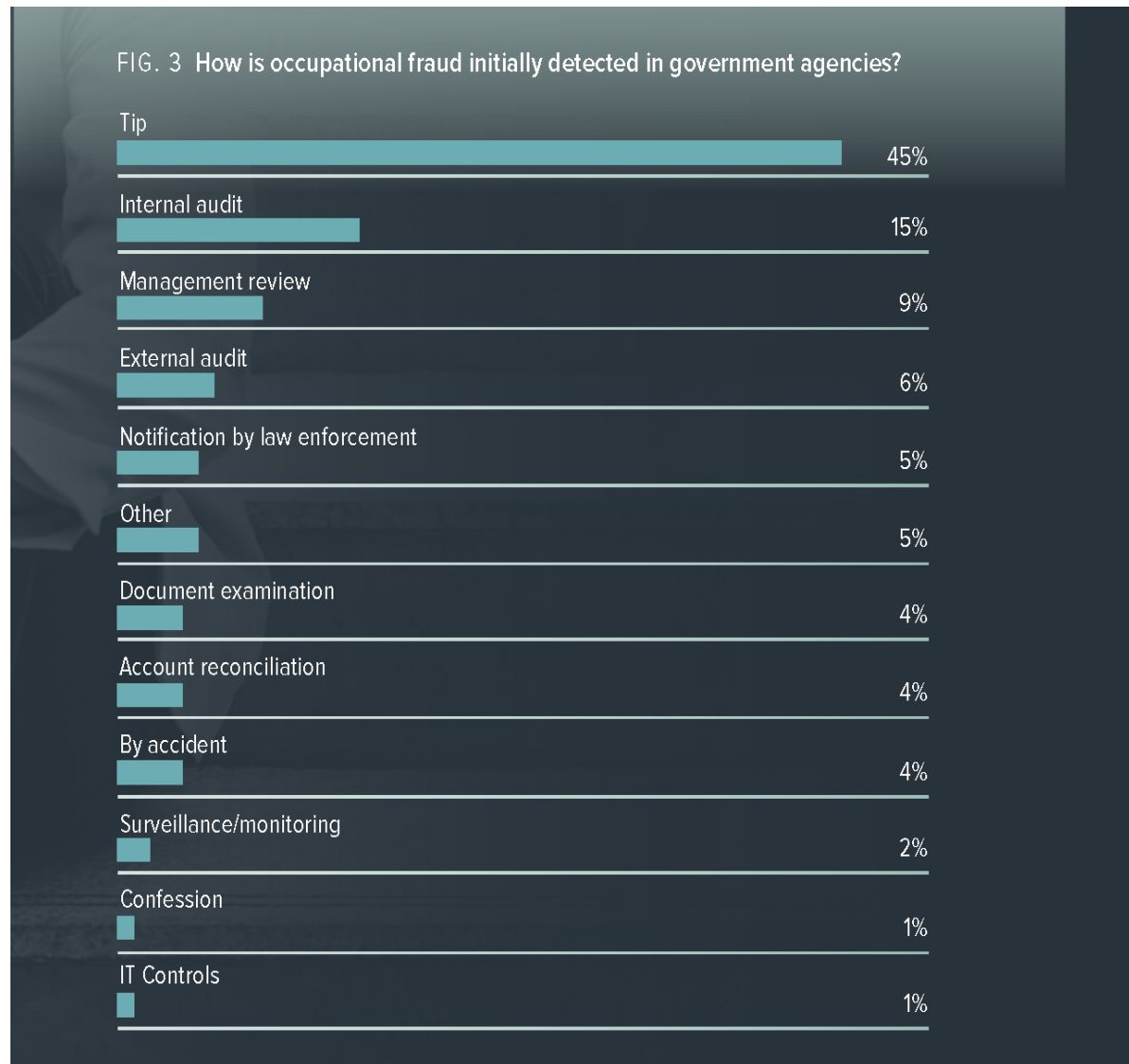
## Main Point:

Having a protocol in place, one created with insight and forethought, eases the burden of decision-making during crunch time when tensions are high and political influences demand quick responses.

# AGENDA

- Common fraud schemes and detection
- Reaction / What's at stake?
- Importance of initial decisions
- Need to know team
- Contacts
- Investigator / Investigation
- Acquire evidence / Present evidence
- Internal controls

# Fraud Detection - Govt



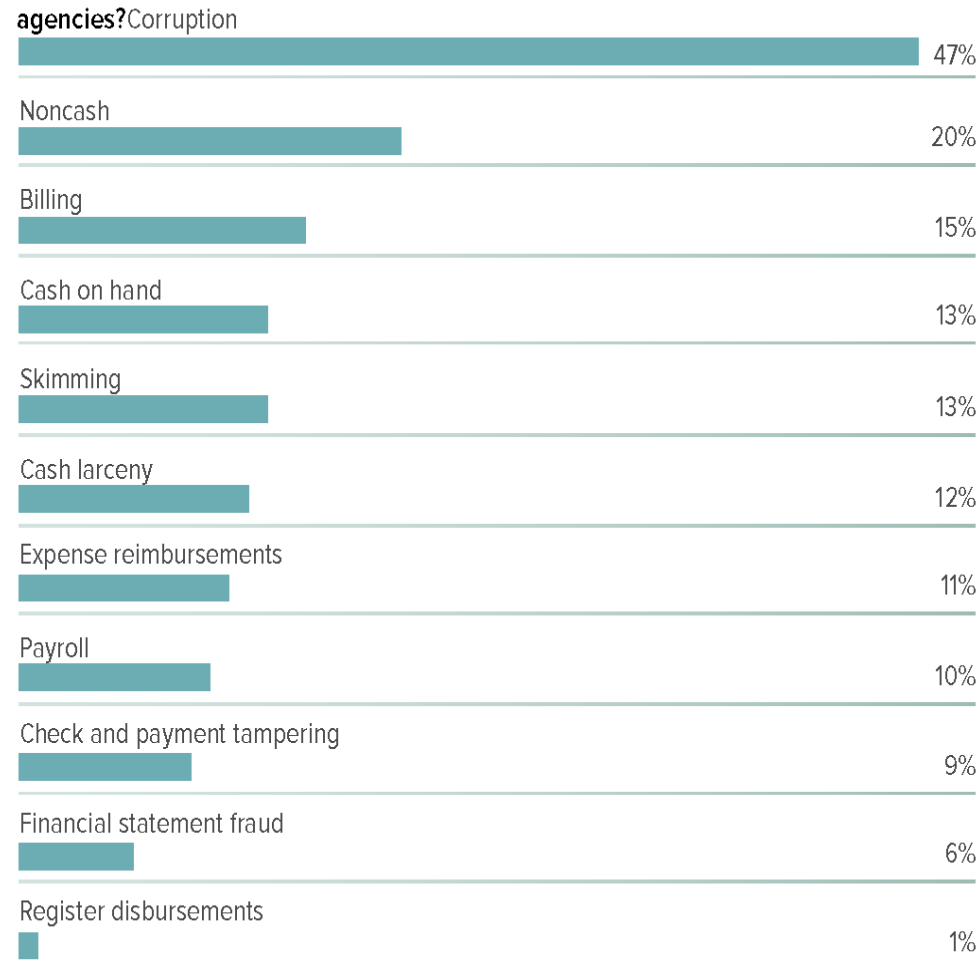
# Complaint

- Stealing
- Kickbacks
- Sex-offenders working with students
- Favored contractors
- Data breach



# Common Fraud Schemes

FIG. 2 What are the most common occupational fraud schemes in government



# Reaction

- Shock / Surprise
- Never though it would happen here!
- We trusted everyone!
- We have controls in place!
- We have a clean audit!



# What's at stake?

- Reputation
- Perception
- Scrutiny
- Employee morale
- Insurance premiums
- Continued misconduct

# Why People Commit Fraud



# Crucial Decisions

- The first decisions you make in response to a complaint of misconduct will significantly impact the investigation.
  - Confidentiality
  - Over-reaction
  - Treating the complaint as fact
  - Notifying the fraudster

# Need to know team

- Receive tip
- Evaluate complaint
- Avoid conflicts
- Not part of the problem



# Who needs to be contacted?

- Insurance broker/agent/risk pool representative
- Forensic investigator?
- External auditor (informed but will not be integral in this process by policy)
- Computer forensics specialist?
- General counsel
- Employment attorney
- Media?

# Decisions

- Who will conduct the investigation?
- Place suspected employee on Admin. Leave?
- Stop work with contractor?
- Involve law enforcement?
- System backups

# Investigator

- Skills
  - Trusted
  - Fair and Impartial
  - Detail oriented
  - Good communicator
  - Inquisitive
  - Interview skills

# Is the Complaint Credible?

- Is there a rule violation?
- Before determining a course of action, evaluate the evidence or allegation
  - Anonymous complaints
    - From a person with specific knowledge of wrongdoing?
    - Signs of credibility
    - Specific facts
    - Detailed information



# Is the Complaint Credible?

- Identified source
  - Due diligence
  - Inquire further
- Try to determine if the complainant is passing on information overheard from others or inferences made from other people's comments.
- Corroboration
- Further evidence

# Does the Nature of the Allegation Warrant Notification to Outside Agencies?

- ANCRA (mandatory reporting to DCFS)
- Sexual Harassment
- Grant providers
- Schools – ISBE
- Environmental
- Data Breaches
- Law Enforcement

# What Is the Employee's Status?

- Member of a Collective Bargaining Unit
  - Guaranteed rights
    - Notice
    - Representation
- At-Will Employee
  - Fewer rights
- Has employee waived any rights?
  - Expectation of Privacy

# What Is the Employee's Status?

- What forum will hear discipline case?
  - Arbitration
  - Internal labor hearing
- Vendor's have rights too
  - Debarment policy
  - Duty to Cooperate
  - Contractual obligations

# Investigation

- Interviews – all relevant parties who know, or should have known, of incident
- Preserve evidence
  - Computer images
  - Electronic evidence – email, text messages...
- Analyze records, data, communications...
- Assess credibility
- Scope
- Summarize for fact finder – inculpatory & exculpatory

# Acquiring Evidence

- Interviews
  - Provers
  - Duty to cooperate?
  - Failure to report misconduct?
- Seizing evidence
  - Law enforcement
- Financial records
- Computer data

# Present evidence

- Who are the decision-makers?
- How will evidence be presented?
  - CBA
  - Loudermill Hearing
- Must involve counsel
- Process if unsubstantiated allegation?
- Insurance claim

# Internal Controls

## COSO Internal Control Framework

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring



# Control Environment

- Control Environment provides the foundation for the internal control system throughout the entire organization; is established by the directors and senior management; and sets the moral and ethical tone of an organization.
- Principles
  - Personnel at all levels demonstrate a commitment to integrity and ethical values.
  - Board oversees the development and performance of internal control.
  - With Board oversight, management establishes the structures, reporting lines, and appropriate authorities and responsibilities.
  - Organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

# Risk Assessment

- Risk Assessment involves the identification and assessment of the risks the entity faces in achieving its organizational objectives. This process is dynamic and iterative, and it forms the basis for determining how risks will be managed.
- Principles
  - Clear objectives to enable the identification and assessment of risk.
  - Identify risk to the achievement of objectives.
  - Consider the potential for fraud.
  - Identify and assess changes that could significantly impact the system of control.

(ACFE)

# Control Activities

- Control Activities are the policies and procedures that enforce management's directives intended to mitigate risk.
- Principles
  - Control activities selected to mitigate risks.
  - General control activities over technology to support the achievement of objectives.
  - Control activities deployed through policies that establish what is expected and procedures that put policies into action.

# Information and Communication

- Information and Communication relates to the exchange of information in a way that allows employees to carry out their internal control responsibilities.
- Principles
  - Obtain or generate and use relevant, quality information to support the functioning of internal control.
  - Internally communicate information, including objectives and responsibilities for internal control.
  - Communicate with external parties regarding matters affecting the functioning of internal control.

# Monitoring

- Monitoring is the process that assesses the effectiveness of a control system over time. Includes both ongoing, automated evaluations and periodic, separate evaluations.
- Principles
  - Select, develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
  - Evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board.

# Recap

- Effective controls in place. (Includes the ability to receive tips from stakeholders – fraud hotline, whistleblower protection)
- Complaint received - determine who gets the complaint and will orchestrate the process of following-up. Including, Who needs to be contacted?
- Who will conduct the investigation?
- Other factors – AL, Stop work with Contractor, Involve law enforcement?
- Investigation
  - Is there a rule violation?
  - Is the complaint credible?
  - Does anyone outside the District need to be contacted?
  - Employee's status – and any special rights.
  - Investigate (in-house or contracted) – fair, independent, impartial and thorough, with no pre-determined outcome
- Present evidence – fair and consistent discipline.
- Circle back and with knowledge of investigative findings, determine how incident happened and implement controls to reduce the risk of occurring in the future.

# Fraud Incident Management Protocol

Having a protocol in place, one created with insight and forethought, eases the burden of decision-making during crunch time when tensions are high and political influences demand quick responses.

# *Questions and Answers*

*We thank you for your time!*



# Presenters:

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