



BEAT THE ODDS:

Tips for Fraud Prevention

Session Leader

Susan Barkley, CPA, CSFM

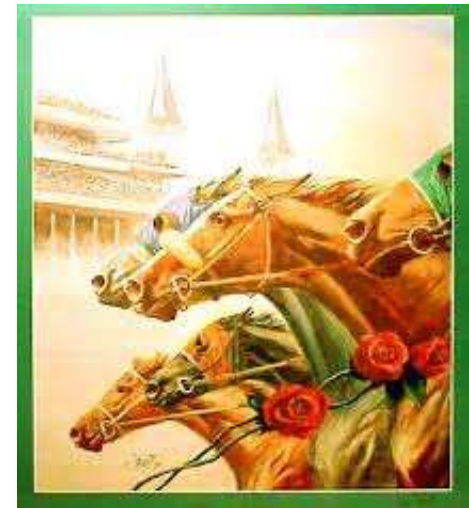
Chief Financial Officer

Finance, Human Resources, and Food Service

Shelby County Public Schools, Kentucky

susan.barkley@shelby.kyschools.us

- Approximately 7000 students
- About 1000 contracted employees
- 12 schools



Rationalization

Personal justification of
dishonest actions

Incentive

Financial or emotional force
pushing toward fraud



FRAUD

Opportunity

Ability to execute plan without
expectation of being caught

We control the
opportunities through
internal controls

Internal Control Defined

Internal control is a manual or automated process designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance

- **Preventive** controls – stop something bad from happening before it occurs
- **Detective** Controls – identify something bad after it has occurred

Go to Kahoot.it on your device



QUESTION #1

What is the most common fraud scheme?

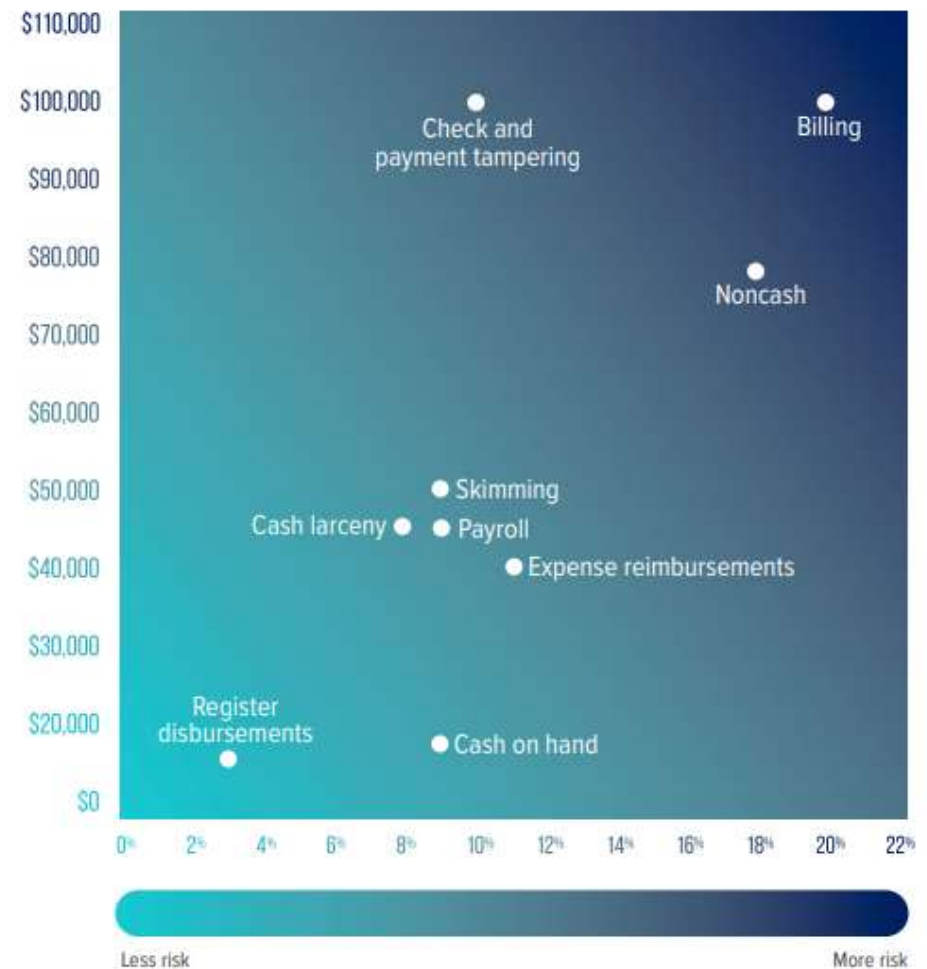
Asset misappropriation is the most common scheme

These sub-schemes pose the greatest risk

Category	Number of cases	Percent of all cases	Median loss
Billing	416	20%	\$100,000
Noncash	385	18%	\$78,000
Expense reimbursements	232	11%	\$40,000
Check and payment tampering	208	10%	\$100,000
Cash on hand	199	9%	\$15,000
Skimming	198	9%	\$50,000
Payroll	198	9%	\$45,000
Cash larceny	169	8%	\$45,000
Register disbursements	58	3%	\$10,000

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FIG. 5 WHICH ASSET MISAPPROPRIATION SCHEMES PRESENT THE GREATEST RISK?



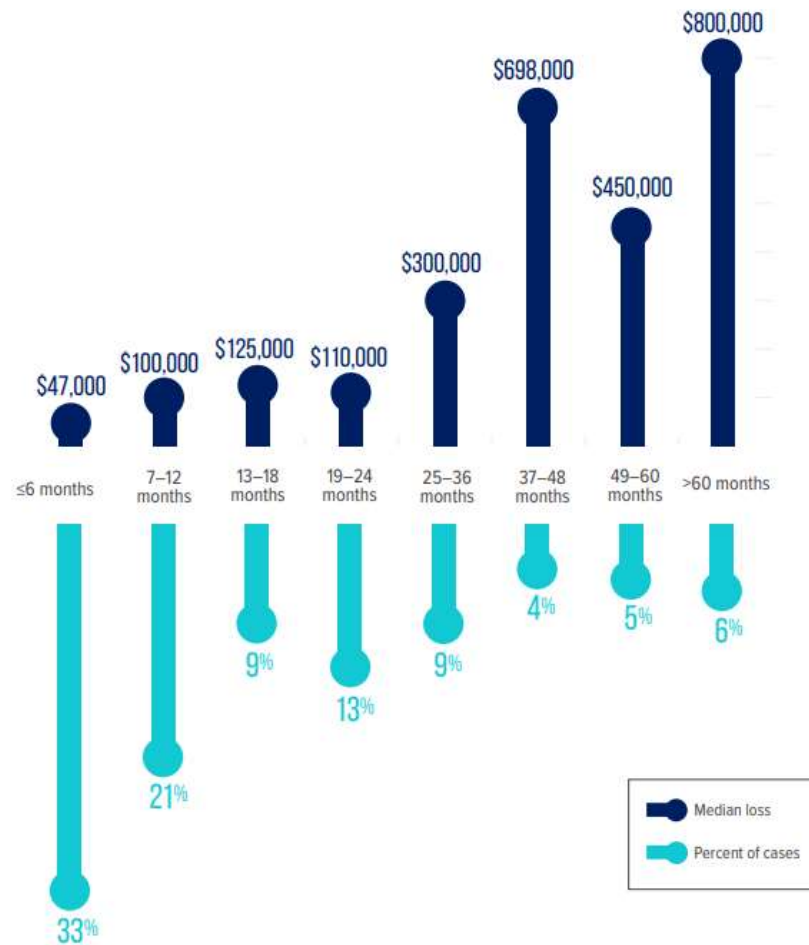
Check and Payment Tampering

- The accounts payable clerk cannot also create/edit vendor records; segregation of duties
- Require W-9, phone number, google some
- Never pre-sign checks or use signature stamps
- Control the check stock
- Void check procedure
- Rounded invoice amounts; amounts just below thresholds; acronym payees
- Remit address/account changes; including ACH and ACI

QUESTION #2

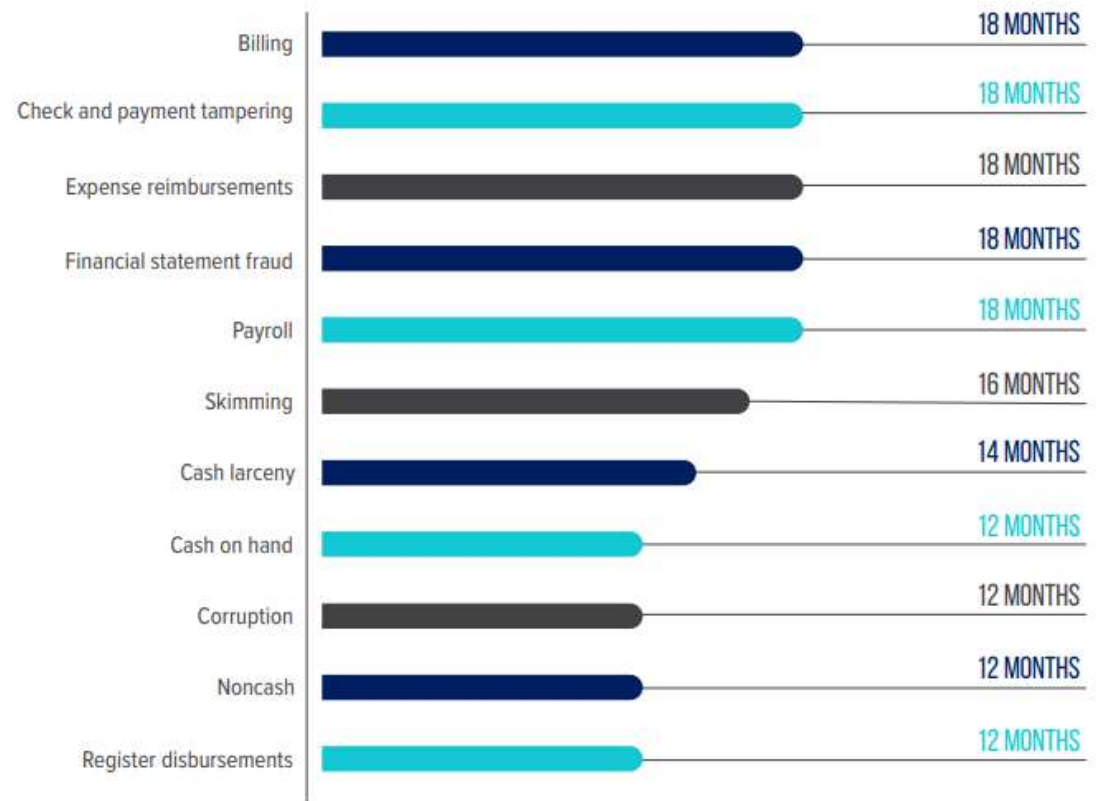
How long do most fraud cases last?

FIG. 6 HOW DOES THE DURATION OF A FRAUD RELATE TO MEDIAN LOSS?



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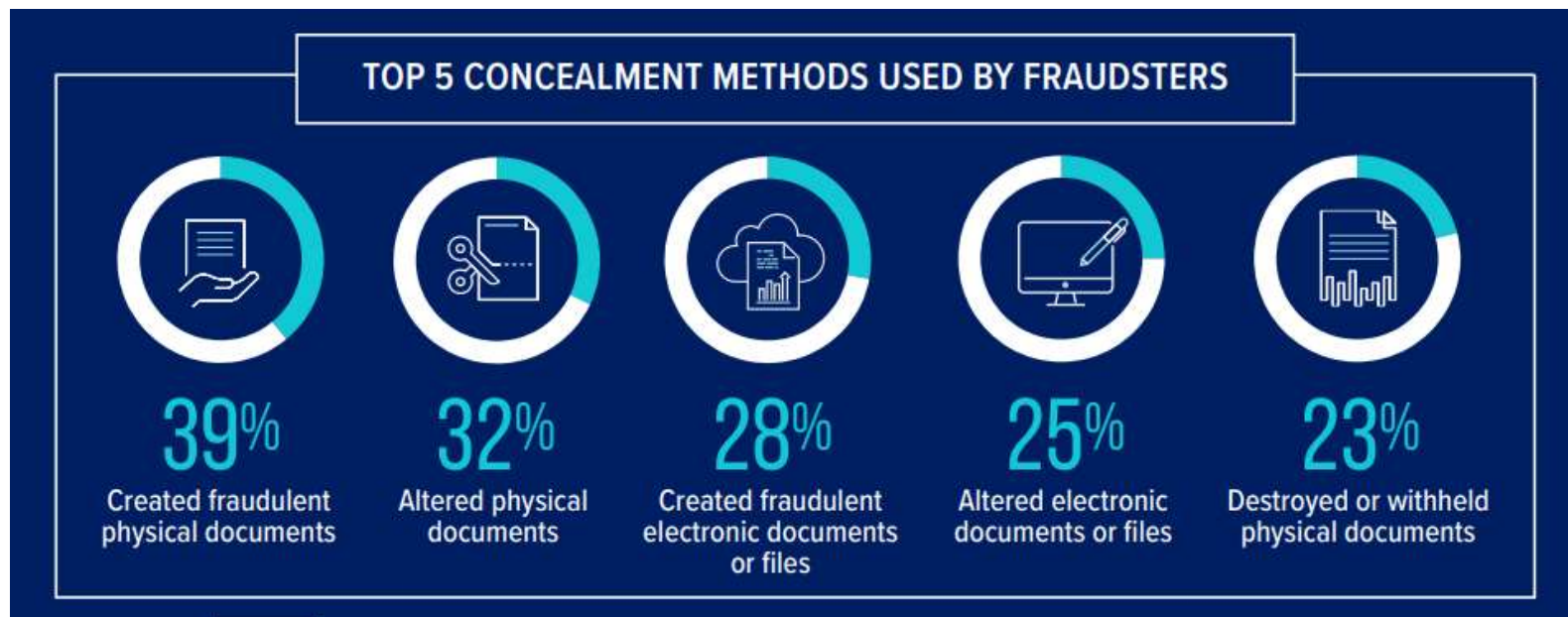
FIG. 7 HOW LONG DO DIFFERENT OCCUPATIONAL FRAUD SCHEMES LAST?



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QUESTION #3

How do most perpetrators conceal their fraud?



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CONCEALMENT BY POSITION



48%
of executive-level perpetrators
DESTROYED evidence.



61%
of managers **CREATED**
fraudulent evidence.

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False Documents, Destroying Documents

- This will impact the effectiveness of our detective controls
- Internal and external risk
- Require original documents
- Principal receives the bank statement first



Fraud Attempt – Case Study

- Attempt to redirect funds from a legitimate vendor to a fraudster's account
- Email is sent to the district asking for a change in remit instructions for an existing vendor
- Legitimate invoices from the vendor are paid according to the new ACH instructions

From: [REDACTED]@tienrey.com>
Sent: Thursday, October 28, 2021 8:59 AM
To: Payable, Accounts <accountspayable@shelby.kyschools.us>
Cc: Mai <mmoua@tienrey.com>
Subject: URGENT NOTICE: TIERNEY LETTER

CAUTION: This email originated from outside of the Shelby County Public Schools domain. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Good morning,

Please find in the attached a letter from our finance department. Kindly confirm that you have read and understood this notice with a return mail.

Thank you.

[REDACTED] | Tierney | Collections Specialist
1771 Energy Park Drive, Suite 100, St. Paul, MN 55108
P: 612-455-3698 | F: 612-331-3424
[Website](#) | [Facebook](#) | [Twitter](#) | [LinkedIn](#)
Includer | Positivity | Arranger | Responsibility | Achiever



Our payment remittance address has changed. Please update your records as follows: PO Box 64766 St. Paul, MN 55164-0766
(612) 331-5500 | (800) 933-7337 | Fax (612) 331-3424
www.tierney.com

Date: 10/27/2021

URGENT NOTICE

An urgent notice just came from our finance department informing us that a **NO DEPOSIT LINE** has been placed on our bank account due to some uncleared government tax issues.

The bank has placed our bank account on review which means that we are unable to send or receive any form of payment pending the period of review.

An internal compliance meeting is being held regarding this matter. Therefore, kindly hold on to payment until I revert to you with further development.

Thank you.


[REDACTED]
Tierney
Collections Specialist
[REDACTED]@tierney.com
1771 Energy Park Drive, Suite 100, St. Paul, MN 55108.
Includer | Positivity | Arranger | Responsibility | Achiever


From: [REDACTED]@tienrey.com>
Sent: Wednesday, November 3, 2021 12:30 PM
To: Payable, Accounts <accountspayable@shelby.kyschools.us>
Cc: Mai <mmoua@tienrey.com>
Subject: Re: URGENT NOTICE: TIERNEY LETTER

CAUTION: This email originated from outside of the Shelby County Public Schools domain. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Good afternoon,

This is a follow up on the mail sent to you last week, we are yet to receive a feedback on the TIERNEY notice letter that was sent.

After an internal compliance meeting regarding the situation, please be advised that we will now be receiving payment with our company routing details via ACH. 

Kindly acknowledge receipt of this email with a return mail so we can forward you our ACH details for payment processing on due invoice. 
Appreciate your prompt response.

Thank you.

[REDACTED] | Tierney | Collections Specialist




Mon 11/22/2021 8:48 AM

Payable, Accounts

Re: KDE District Financial News


To  Barkley, Susan

 You forwarded this message on 11/22/2021 9:02 AM.
If there are problems with how this message is displayed, click here to view it in a web browser.

[Bing Maps](#)

Good morning,

I was able to get on a conference call with three representatives from the TIERNEY finance team. I can confirm that the ACH payment instructions are legitimate as they have been verbally verified.

 The linked image cannot be displayed. The file may have been moved, renamed, or deleted. Verify that the link points to the correct file and location.

Laura Morgan

Accounts Payable
Shelby County Public Schools
1155 W. Main Street
Shelbyville, Kentucky 40065
O: (502) 633-2375 ext. 10255 Fax 502-647-0246
[Facebook](#) • [Instagram](#) • [Twitter](#) • [Website](#)

From: Barkley, Susan <susan.barkley@shelby.kyschools.us>

Sent: Friday, November 19, 2021 3:08 PM

To: Payable, Accounts <accounts payable@shelby.kyschools.us>

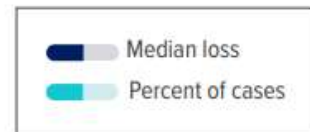
QUESTION #4

Which organization experiences more costly frauds?

FIG. 17 HOW DOES AN ORGANIZATION'S SIZE RELATE TO ITS OCCUPATIONAL FRAUD RISK?



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Why smaller organizations?

- Segregation of duties
 - Think outside the financial
- Training
- Trust



**TRUST IS NOT
AN INTERNAL
CONTROL**

**TRUST BUT
VERIFY**

Verification Strategies

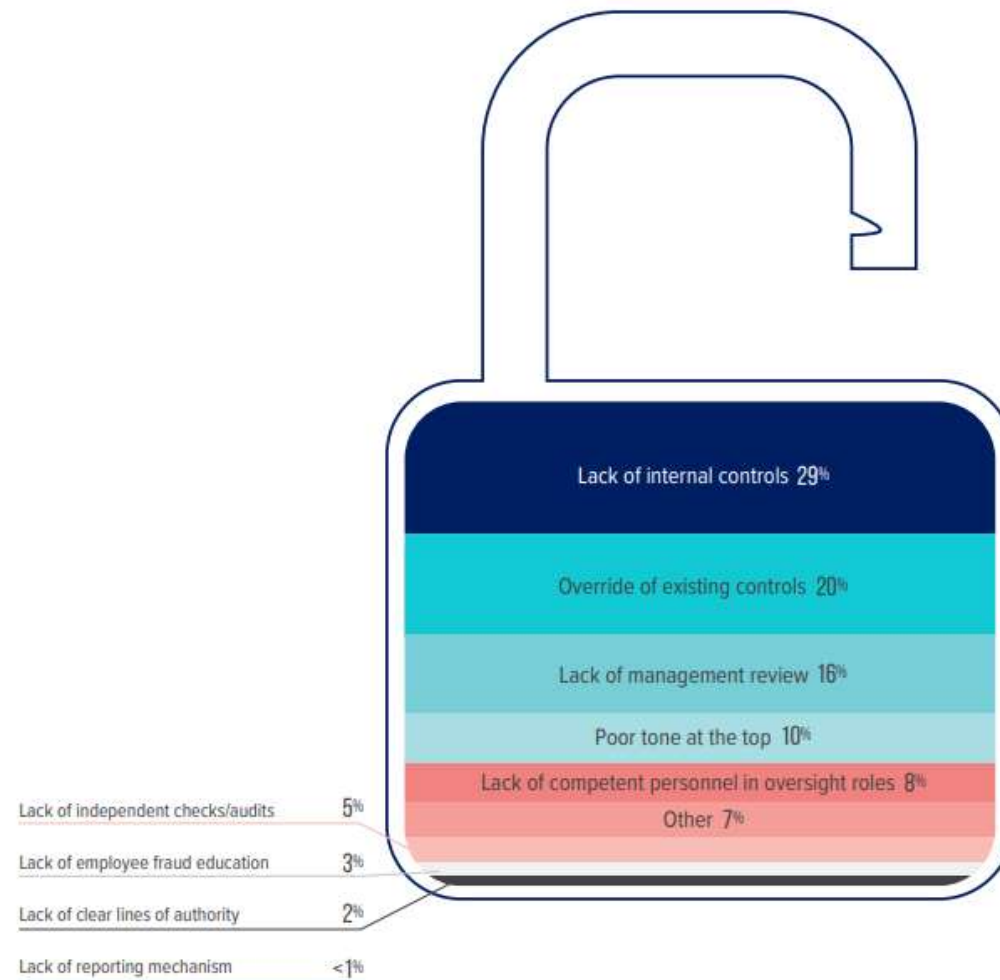
- Approvals
- Supporting documentation
 - Purchases
 - Reimbursements
 - Refunds
- Employ professional skepticism
 - Does it make sense?
 - Does it look right?



QUESTION #5

What is the primary internal control weakness that led to fraud?

FIG. 29 WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD?



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Identifying Risk Areas

- Are there incentives or pressures to steal?
- Where are internal controls weak?
- Are management overrides allowed or possible?
- Are there any red flags?
- Where do opportunities exist?
- Long-term, experienced staff
- Lack of segregation of duties

Segregation of Duties - Defined

- No single individual should have control over two or more phases of a transaction or operation
- No one individual employee can complete a significant business transaction in its entirety
- No one employee should be in a position to commit fraud and then conceal it



Sample Internal Controls

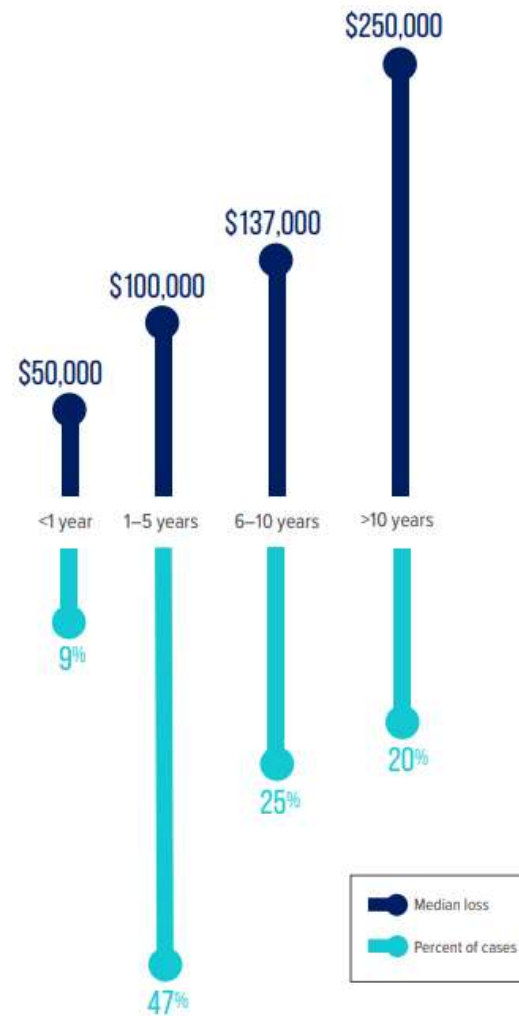
- Someone other than the accounts payable clerk adds/maintains vendors
- Ticket reconciliation
 - Don't just make sure it's completed – review it, compare years
- Using GoFan instead of collecting cash at the gate

Are these preventive or detective controls?

QUESTION #6

Which group commits the larger fraud schemes?

FIG. 33 HOW DOES THE PERPETRATOR'S TENURE RELATE TO OCCUPATIONAL FRAUD?



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FIG. 31 HOW DOES THE PERPETRATOR'S LEVEL OF AUTHORITY RELATE TO OCCUPATIONAL FRAUD?



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Other Key Controls

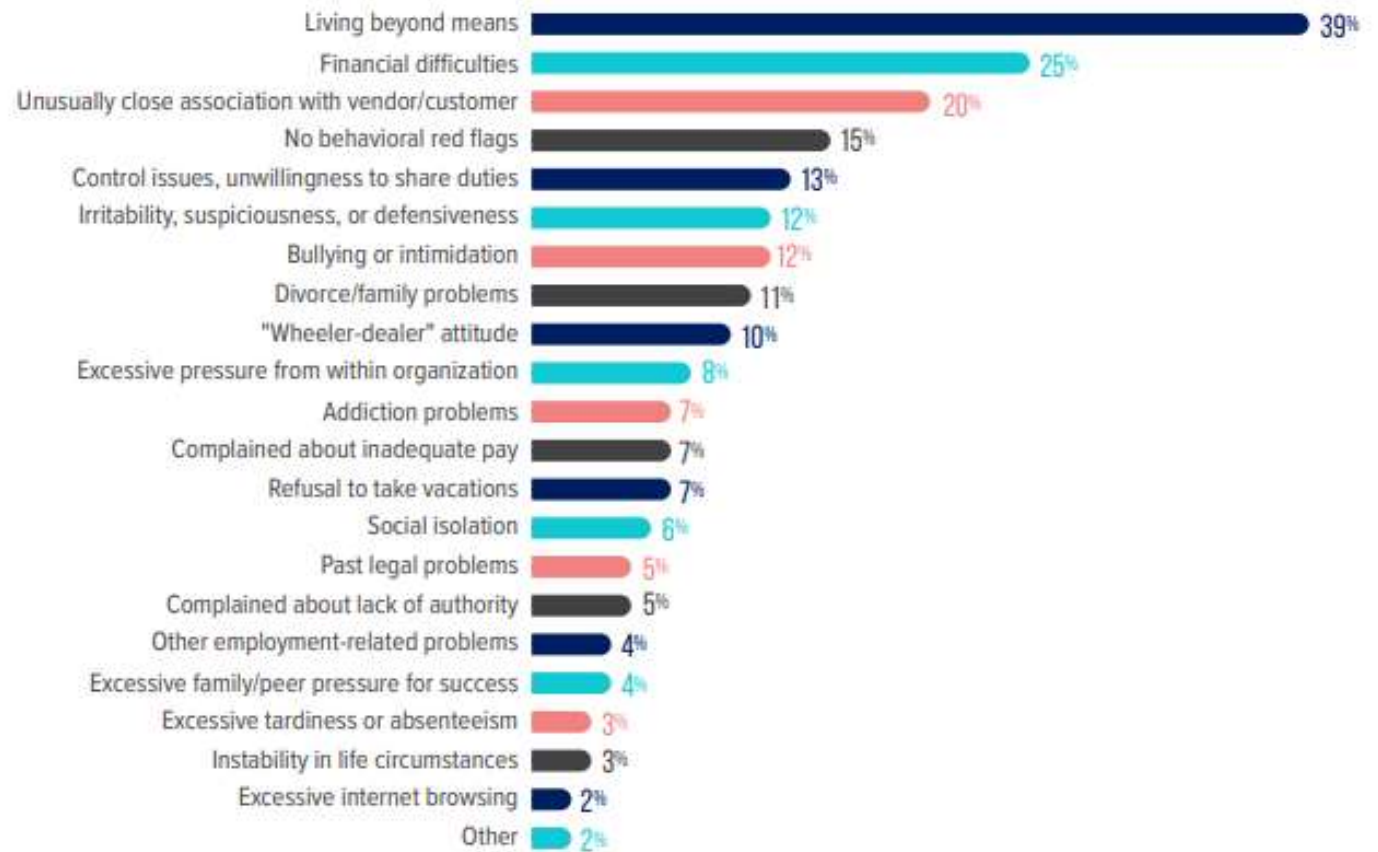


- Tone at the top
- No management overrides
- Take swift and immediate action if fraud occurs
- Fraud training
- Limit system access

QUESTION #7

What is the most common red flag exhibited by fraudsters?

FIG. 44 HOW OFTEN DO PERPETRATORS EXHIBIT BEHAVIORAL RED FLAGS?



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8 KEY WARNING SIGNS

85%

OF ALL FRAUDSTERS
displayed at least one
**BEHAVIORAL
RED FLAG**

These are the 8 most common behavioral clues
of occupational fraud. **At least one of these
red flags** was observed in 76% of all cases.



39%

Living beyond
means



25%

Financial
difficulties



20%

Unusually close
association with
vendor/customer



13%

Control issues,
unwillingness
to share duties



12%

Irritability,
suspiciousness,
or defensiveness



12%

Bullying or
intimidation



11%

Divorce/family
problems



10%

"Wheeler-dealer"
attitude

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Red Flags

How can we use this knowledge to design better internal controls?

- Require cross training
- Require mandatory vacations for key positions
- Bond key positions; background checks
- PO approvals
- Observation, awareness



QUESTION #8

Who commits more fraud?

FIG. 36 HOW DOES THE PERPETRATOR'S GENDER RELATE TO OCCUPATIONAL FRAUD?

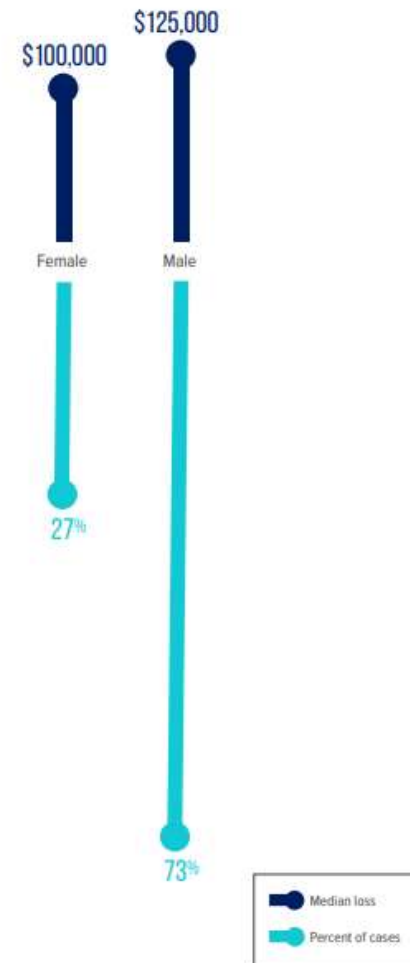
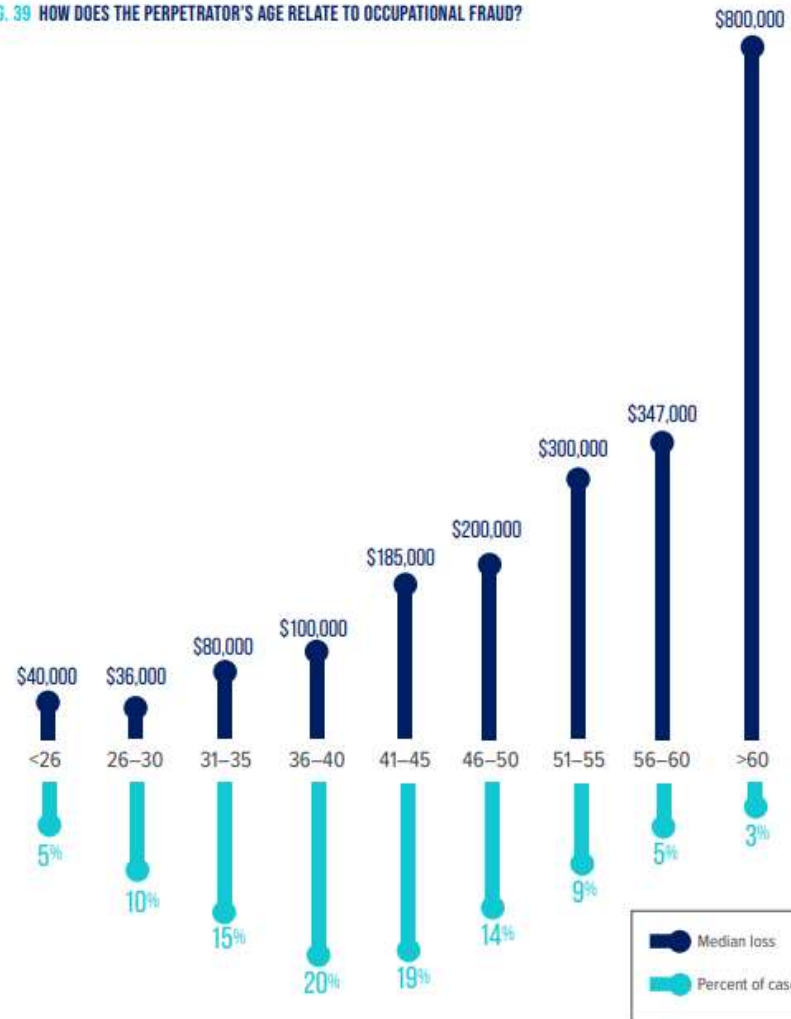


FIG. 39 HOW DOES THE PERPETRATOR'S AGE RELATE TO OCCUPATIONAL FRAUD?

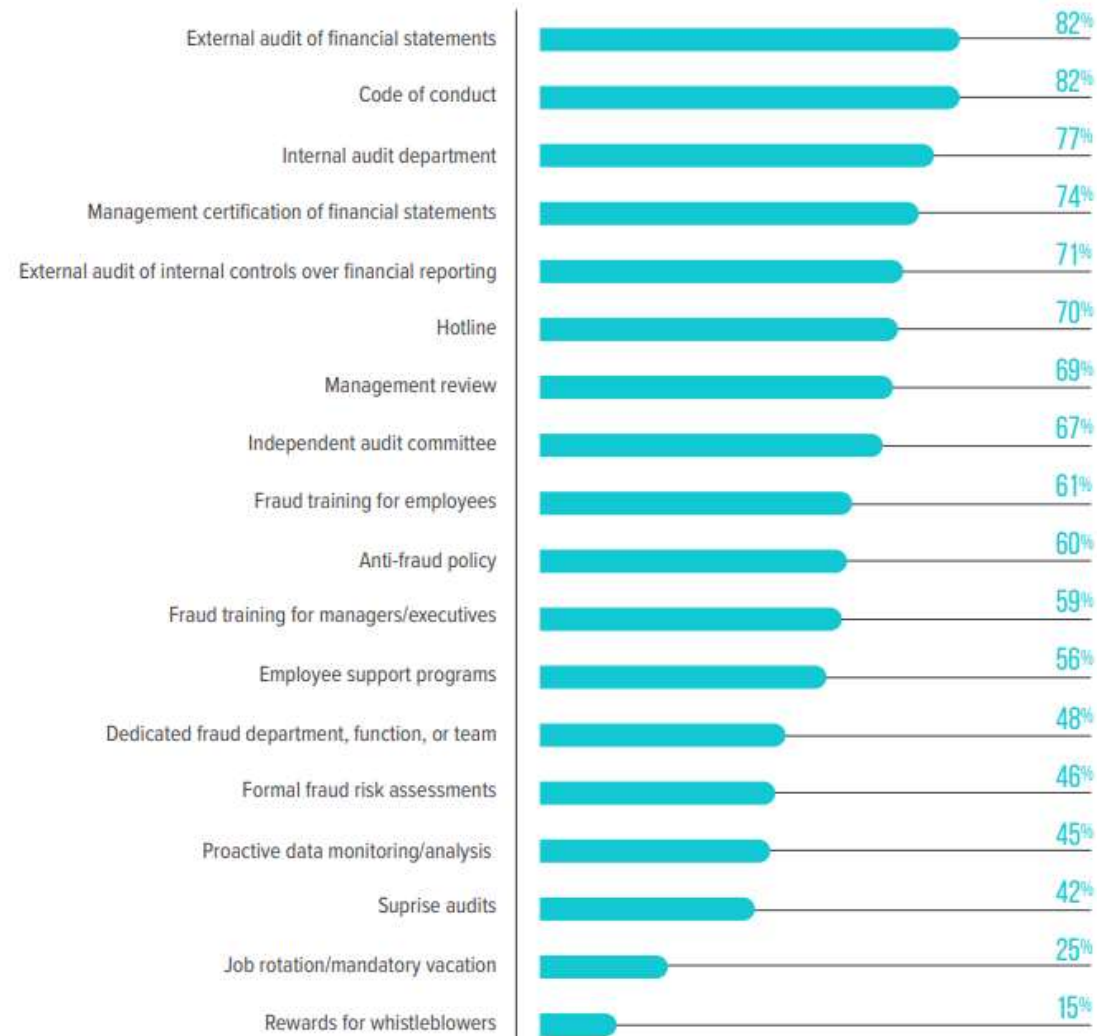


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QUESTION #9

What is the most common fraud detection strategy?

FIG. 22 WHAT ANTI-FRAUD CONTROLS ARE MOST COMMON?



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The presence of anti-fraud controls
is associated with



AND



LOWER
fraud losses

QUICKER
fraud detection

Nearly **HALF** of cases
occurred due to:

Lack of
internal controls



OR

Override of
existing controls



81% of victim organizations
MODIFIED their anti-fraud
controls following the fraud.



Increased management
review procedures



Increased use of proactive
data monitoring/analysis

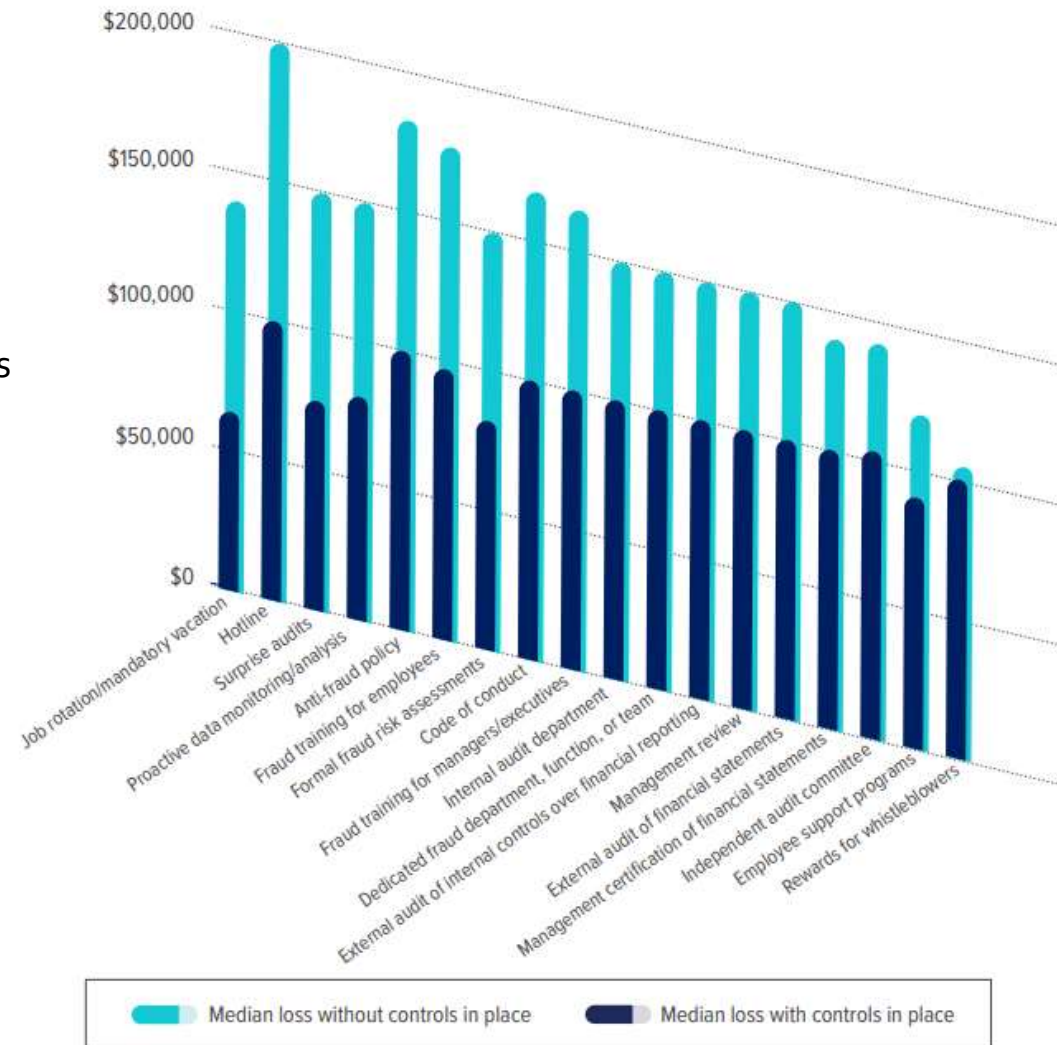
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Most effective controls:

- Job rotation/mandatory vacation
- Hotline
- Surprise audits
- Proactive monitoring/analysis

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FIG. 23 HOW DOES THE PRESENCE OF ANTI-FRAUD CONTROLS RELATE TO MEDIAN LOSS?



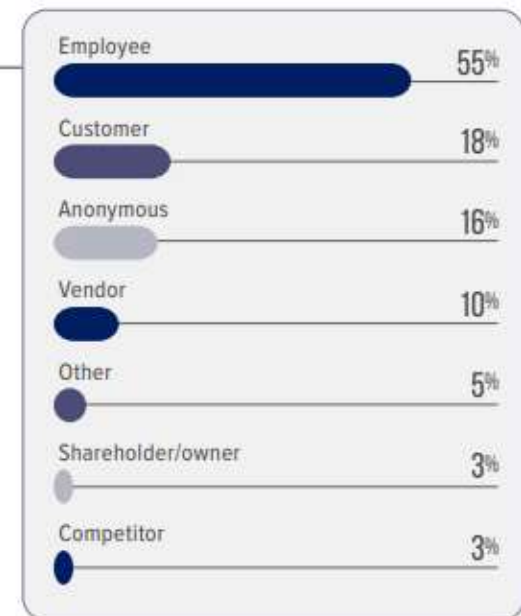
QUESTION #10

How are most fraud schemes discovered?

FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?



FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



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Reporting mechanisms:

- Email
- Web-based form
- Telephone
- Mailed letter/form

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70% of
VICTIM
ORGANIZATIONS
had hotlines

Fraud losses were
2X HIGHER 
at organizations without hotlines

With hotlines \$100,000

Without hotlines \$200,000

EFFECT OF EMPLOYEE AND MANAGER FRAUD AWARENESS TRAINING ON HOTLINES AND REPORTING

TRAINING INCREASES
the likelihood of detection by tip

45% of cases detected
by tip with training

37% of cases detected
by tip without training



Reports of fraud are
**MORE LIKELY TO
BE SUBMITTED**
through hotlines
with training

With training **58%**

Without training **42%**

Percent of tips made through hotline

Organizations with
hotlines detect frauds
MORE QUICKLY

With hotline **12 MONTHS**

Without hotline **18 MONTHS**



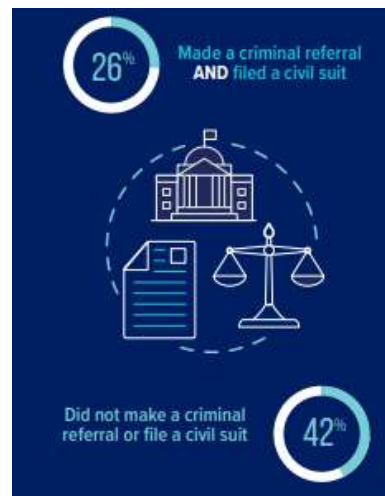
Organizations with hotlines are more
likely to detect fraud **BY TIP**



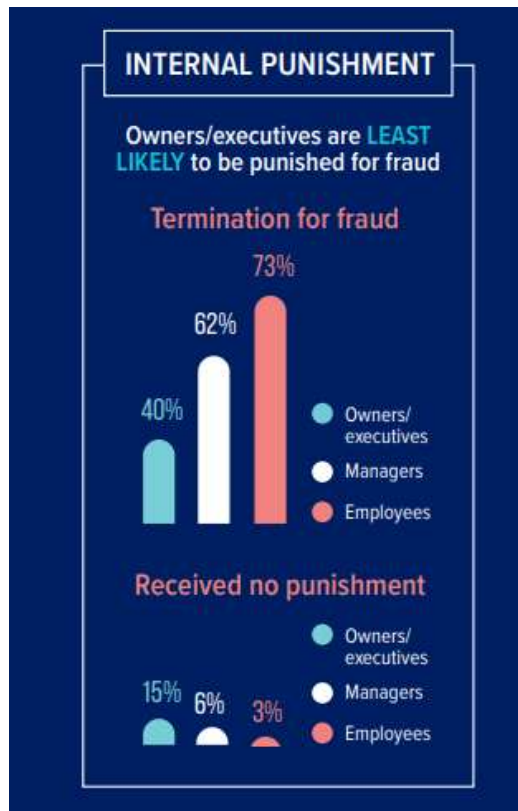
Percent of cases detected by tip

QUESTION #11

How many fraud cases are referred to law enforcement for criminal charges?

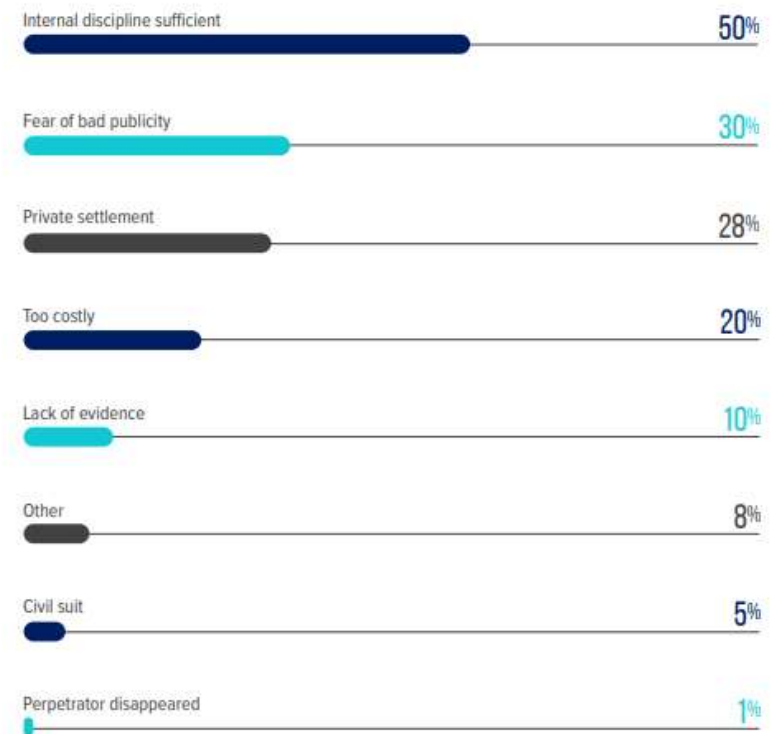


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FIG. 48 WHY DO ORGANIZATIONS DECLINE TO REFER CASES TO LAW ENFORCEMENT?



QUESTION #12

How many entities recover NONE of the fraud loss?



of victim organizations
DID NOT RECOVER
any fraud losses.

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Final Thoughts



- Recognize fraud can happen in your schools or district
- **Create segregation of duties and internal controls**
- No overrides of controls
- Don't throw away protocol because of friendships or trust

