

Preventing Fraud and Strengthening Internal Controls



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Preventing Fraud and Strengthening Internal Controls

- Internal controls: what they are and why they're important
- Association of Certified Fraud Examiners (ACFE) 2024 Report to the Nations
- Fraud cases in Louisiana, and how they could have been prevented
- Banking preventive measures

Top 10 Audit Findings for Louisiana Local Governments in 2023

1. Inadequate internal controls, improper segregation of duties
2. Noncompliance with the Local Government Budget Act
3. Late filing of the audit report with the Legislative Auditor
4. Inadequate grant administration
5. Inadequate reconciliations
6. Incomplete or poor accounting records and documentation
7. Failure to provide financial reports to the governing body
8. Inadequate or lack of written policies and procedures
9. Improper use of public or restricted funds
10. Noncompliance with the Public Bid Law

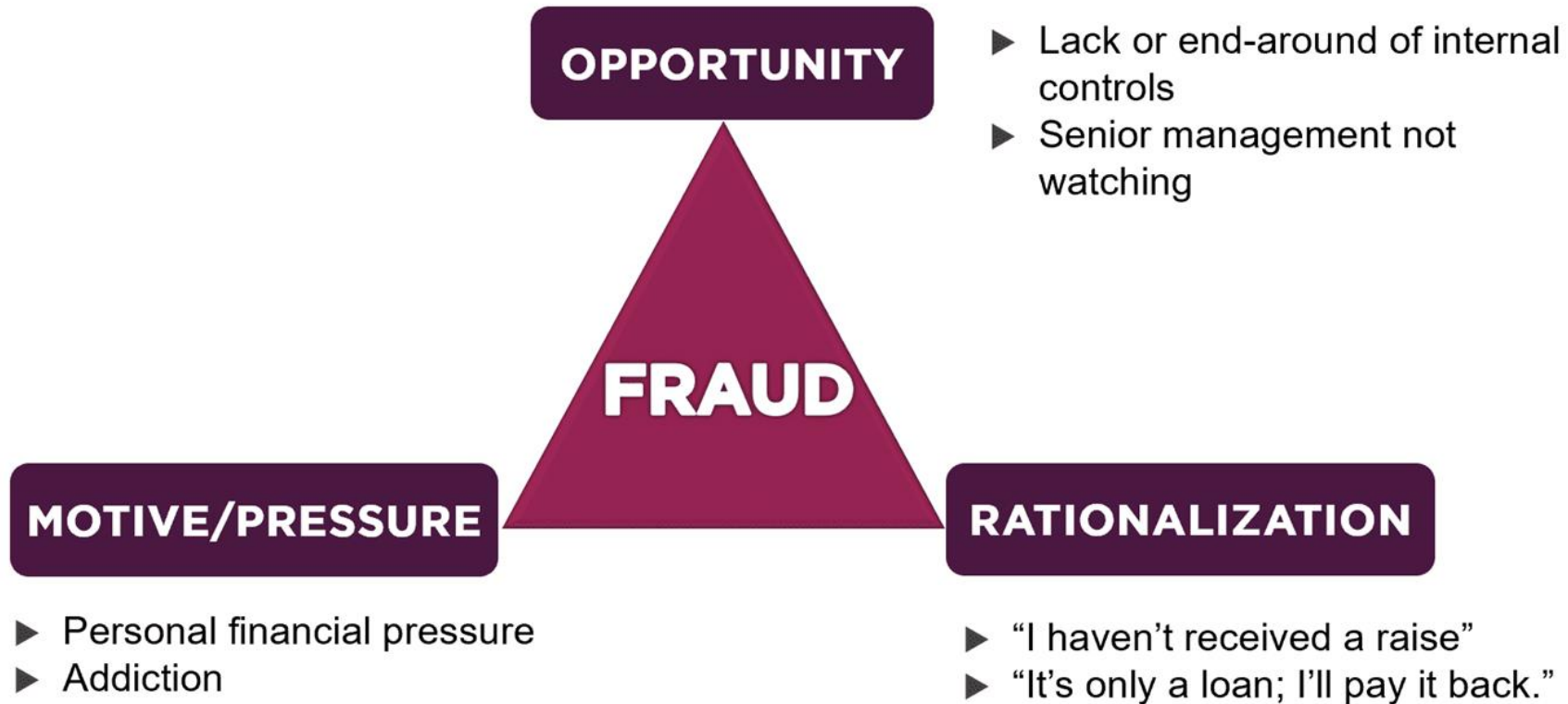
Top 10 Audit Findings for Schools and School Districts

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3. Incomplete or poor accounting records and documentation
4. Inadequate reconciliations
5. Noncompliance with the Local Government Budget Act
6. Late filing of the audit report with the Legislative Auditor
7. Misappropriation of public assets, fraud
8. Improper use of public funds
9. Inadequate or lack of written policies and procedures
10. Noncompliance with the Public Bid Law

Types of Internal Control Findings

1. Amounts don't agree with supporting documentation
2. Lack of evidence of approvals
3. Inaccurate data entry (coding, dates, etc.)
4. Failure to follow written policies and procedures
5. Failure to comply with Single Audit internal control requirements
6. Lack of evidence of reviews
7. Failure to reconcile, incorrect reconciliations, untimely reconciliations
8. Improper segregation of incompatible duties (custody, authorization, recording, reconciling), inadequately trained staff
9. Lack of controls over leave (no records, no written policy, no approval, no deductions from balances, etc.)
10. Unlimited computer and software access

The Key is to Reduce the Opportunity



Internal Controls Simply Defined

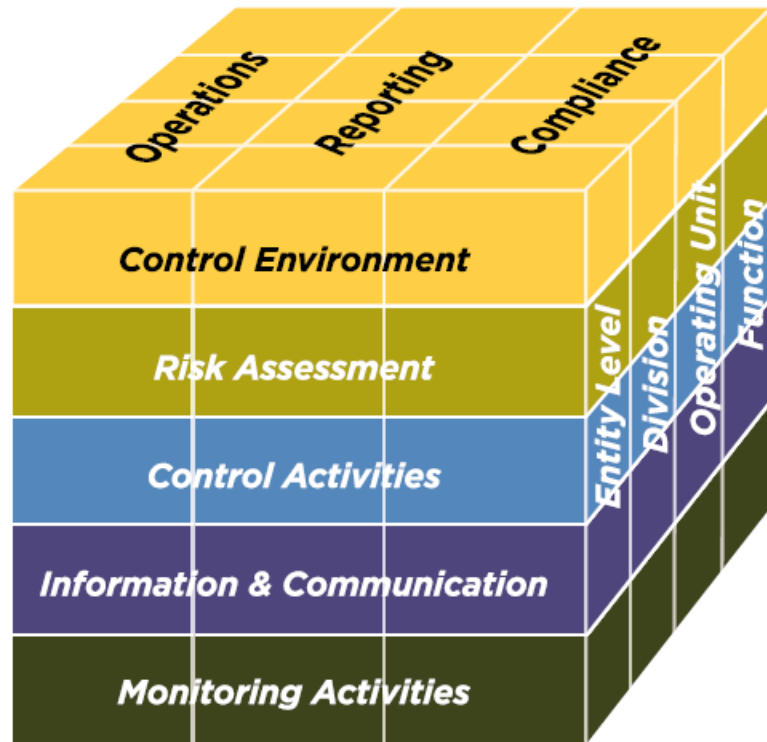


Internal controls are nothing more (or less) than **the combination of people, policies and procedures** that managers rely upon to be able to provide answers to these questions:

1. *How do I know* that my organization is **operating effectively and efficiently** and is **safeguarding assets**?
2. *How do I know* that financial statements and other reports **can be relied upon**?
3. *How do I know* that my organization is **complying** with applicable laws, regulations, and policies?

Stephen J. Gauthier, former Director of Technical Services,
Government Finance Officers Association (GFOA)

COSO Integrated Framework



- 3 categories of objectives are across the top
- 5 essential components of internal control are down the front
- Organizational structure is across the side

Principles of Internal Controls: Control Environment

1. The organization **demonstrates a commitment to integrity and ethical values.**
2. The board demonstrates **independence from management** and **exercises oversight** of the development and performance of internal control.
3. Management establishes, with board oversight, **structures, reporting lines, and appropriate authorities and responsibilities** in the pursuit of objectives.
4. The organization demonstrates a commitment **to attract, develop, and retain competent individuals** in alignment with objectives.
5. The organization **holds individuals accountable** for their internal control responsibilities in the pursuit of objectives.



Principles of Internal Controls: Risk Assessment

6. The organization **specifies objectives** with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The organization identifies risks to the achievement of its objectives across the entity and **analyzes risks** as a basis for determining how the risks should be managed.
8. The organization **considers the potential for fraud** in assessing risks to the achievement of objectives.
9. The organization **identifies and assesses changes** that could significantly impact the system of internal control.

Principles of Internal Controls: Control Activities

10. The organization **selects and develops control activities** that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The organization selects and develops general control activities over **technology** to support the achievement of objectives.
12. The organization **deploys control activities** through policies that establish what is expected and procedures that put policies into action.

Principles of Internal Controls: Information and Communication

13. The organization obtains or generates and uses **relevant, quality information** to support the functioning of internal control.
14. The organization **internally communicates information**, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
15. The organization **communicates with external parties** regarding matters affecting and functioning of internal control.

Principles of Internal Controls: Monitoring Activities

16. The organization selects, develops, and performs ongoing and/or separate **evaluations** to ascertain whether the components of internal control are present and functioning.
17. The organization evaluates and **communicates internal control deficiencies in a timely manner** to those parties responsible for taking corrective action, including senior management and the board, as appropriate.

Levels of Internal Controls

- **Entity level**

- Governance controls
 - Control environment
 - Organization-wide policies and procedures
 - Controls over management override
 - Controls to monitor other controls
- Management oversight controls
 - Enterprise risk management process
 - Centralized processing
 - Controls to monitor operational performance
 - Some period-end controls

- **Process level**

- Supervision
- Monitoring
- Oversight
- Performance evaluations
- Key account reconciliations
- Inventory counts

- **Transaction level**

- Documentation requirements
- Segregation of duties
- Authorizations
- Software application controls



Soft and Hard Internal Controls

Soft Controls

- Competence
- Trust
- Shared values
- Strong leadership
- High expectations
- Openness
- High ethical standards

Hard Controls

- Policies and procedures
- Organizational structure
- Bureaucracy
- Restrictive formal processes
- Centralized decision making

Key, Secondary, and Compensating Controls

- **Key controls** must operate effectively to reduce a significant risk to an acceptable level
 - Tone at the top, variance thresholds, account reconciliations
- **Secondary controls** help the process run smoothly but aren't essential
 - Performance indicators, acceptable range
- **Compensating controls** make up for the lack of an expected control
 - Close supervisory review when have inadequate segregation of duties

Preventive and Detective Controls

Preventive controls deter undesirable events from occurring

- Such as limiting access
- Strongest type of control, can be difficult to design, and may not be economical or efficient

Detective controls discover undesirable events after they have occurred

- Need to be timely

Examples of Control Activities

- Ethical tone at the top
- Organizational structure that promotes flow of information
- Clear definition of responsibilities
- Delegation of authority
- Methods for holding people accountable
- Qualified and well-trained personnel
- Positive, motivating work environment
- Effective empowerment of employees
- Atmosphere of mutual trust
- Frequent interaction between senior and operating management
- Appropriate policies for hiring, training, promoting, and compensating employees
- Written policies and procedures
- Performance standards
- Authorizations
- Review financial and performance indicators
- Independent verification of performance

Examples of Control Activities

- Reconciliations
- Security for assets and records
- Supervisory review
- Segregation of incompatible duties (at least 2 eyes on every transaction)
- Checklists
- Compliance programs
- Forms controls (prenumbered, integrity of numerical sequence, limited access)
- Exception reports
- Data security
- IT environment controls (heat, humidity, fire extinguishers)
- Backup and recovery policies and procedures
- Disaster recovery and business continuity plans
- Input controls (validation, error notification, completeness checks, etc.)
- Processing controls (edit checks, control totals, etc.)
- Output controls (reviews, change reports)
- Software license compliance

Internal Control Roles and Responsibilities

- The **CEO** (Superintendent, Principal, ED etc.) has primary responsibility for the system of internal controls
- The **governing body** (board) oversees management and provides direction
- **Internal auditors** independently validate management's assertions
- **Everyone** in the organization has responsibility for internal control – risk assessment and performance
- **Outside parties** (external auditor, vendors and contractors, customers) should follow the organization's applicable policies and procedures

Limitations of Internal Control

- Consideration of cost will prevent management from ever installing a “perfect” system
- Reality that human judgment in decision making can be faulty and subject to bias
- Breakdowns that can occur because of human failures such as simple errors
- Ability of management to override internal control
- Ability of management, other personnel, and/or third parties to circumvent controls through collusion
- External events beyond the organization’s control

Association of Certified Fraud Examiners 2024 Report to the Nations

- The typical organization **loses 5% of revenues** in a given year as a result of fraud
- Median loss was **\$145,000**; median duration was **12 months**
- **Asset misappropriation** was the most common type of occupational fraud (especially check and payment tampering, billing, theft of noncash assets)
- Most common **concealment methods** were creating fraudulent physical documents and altering physical documents
- Most common **detection method** was tips, and most common reporters were employees
- More than half of the cases occurred due to **lack of internal controls** and **override of existing controls**



Categories of Occupational Fraud

- 1. Corruption** – purchasing schemes, sales schemes, bribery, kickbacks, bid rigging, illegal gratuities, economic extortion
- 2. Financial statement fraud** – basically overstating net worth and/or net income (unrecorded or fictitious transactions, understated expenses, improper asset valuations, improper disclosures)
- 3. Asset misappropriation** – theft of cash and inventory, fraudulent disbursements

Asset Misappropriation Fraud Schemes

1. Theft of cash on hand or cash received
2. Skimming sales through unrecorded or understated transactions
3. Skimming receivables through write-off schemes or lapping schemes
4. Refunds
5. Billing schemes – shell companies, non-accomplice vendors, personal purchases
6. Payroll schemes – ghost employees, falsified wages, commission schemes
7. Expense reimbursement schemes – mischaracterized, overstated, fictitious, multiple reimbursements



Asset Misappropriation Fraud Schemes

8. Check and payment tampering – forged maker, forged endorsement, altered payee, authorized maker
9. Register disbursements – false voids or false refunds
10. Misuse of inventory or other assets
11. Theft through asset requisitions and transfers, false sales and shipping, purchasing and receiving
12. Unconcealed theft

How Frauds are Concealed

- 1. Physical documents** – fraudulently created, altered, destroyed, withheld
- 2. Electronic documents and files** – fraudulently created, altered, destroyed, withheld
- 3. Transactions in the accounting system** - fraudulently created, altered, deleted, or omitted
- 4. Journal entries** – fraudulently created, altered, deleted, or omitted
- 5. Account reconciliations** – forced or altered
- 6. Account balances** in the accounting system – forced or altered

How Frauds are Detected and Who Reports Them

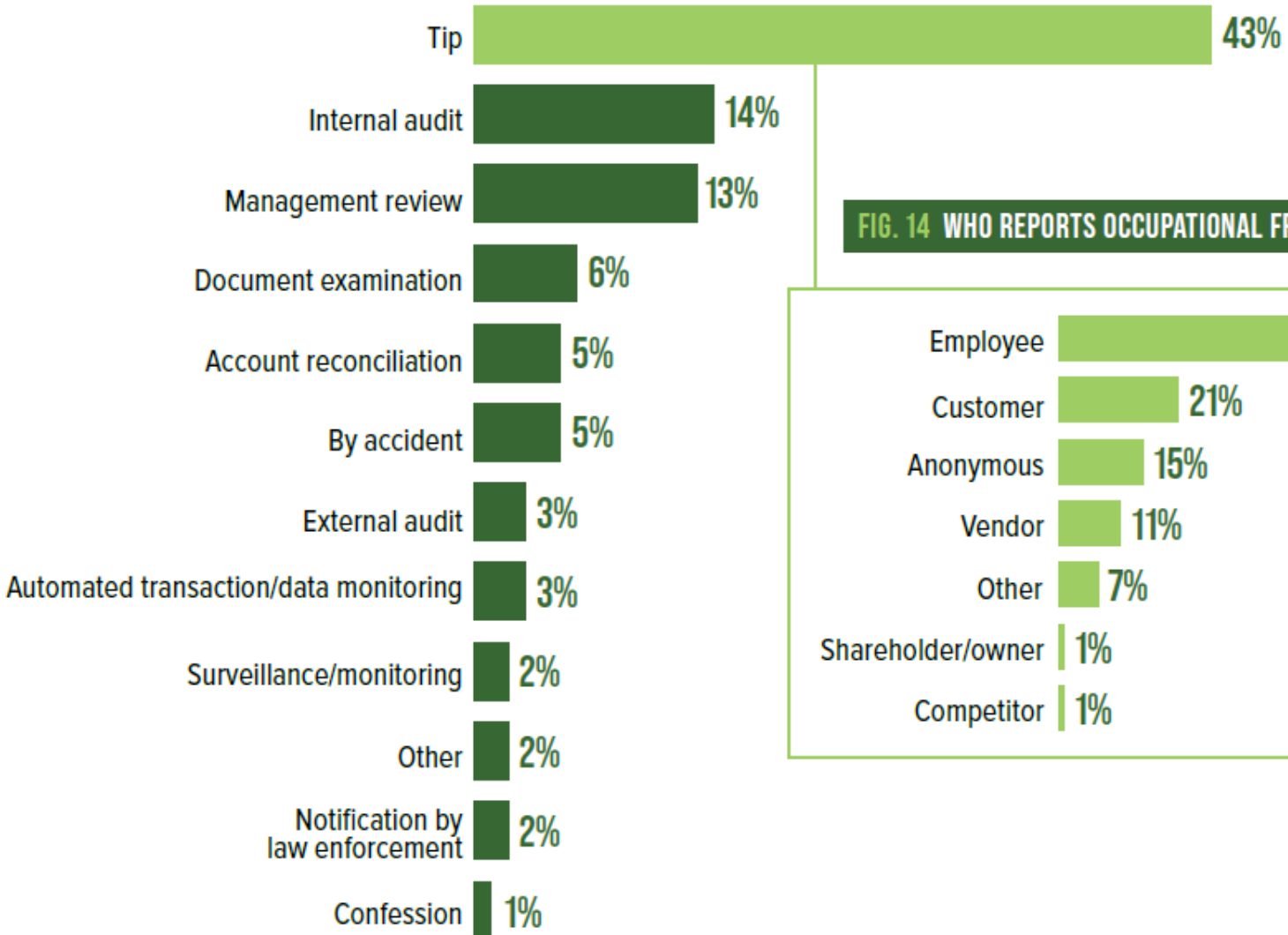
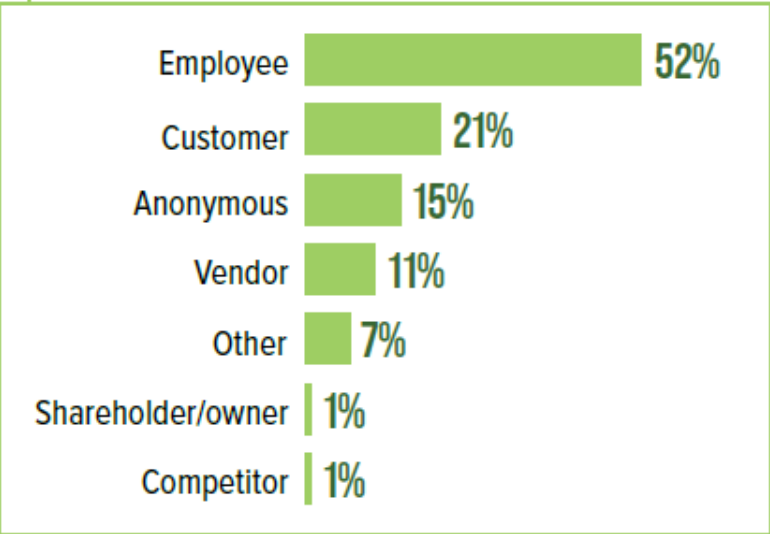


FIG. 14 WHO REPORTS OCCUPATIONAL FRAUD?



Behavioral Red Flags

Unusually close association with vendor/customer

Complained about inadequate pay

Past legal problems

Living beyond means

Wheeler-dealer attitude

Refusal to take vacations

Addiction problems

Irritability, suspiciousness, or defensiveness

Financial difficulties

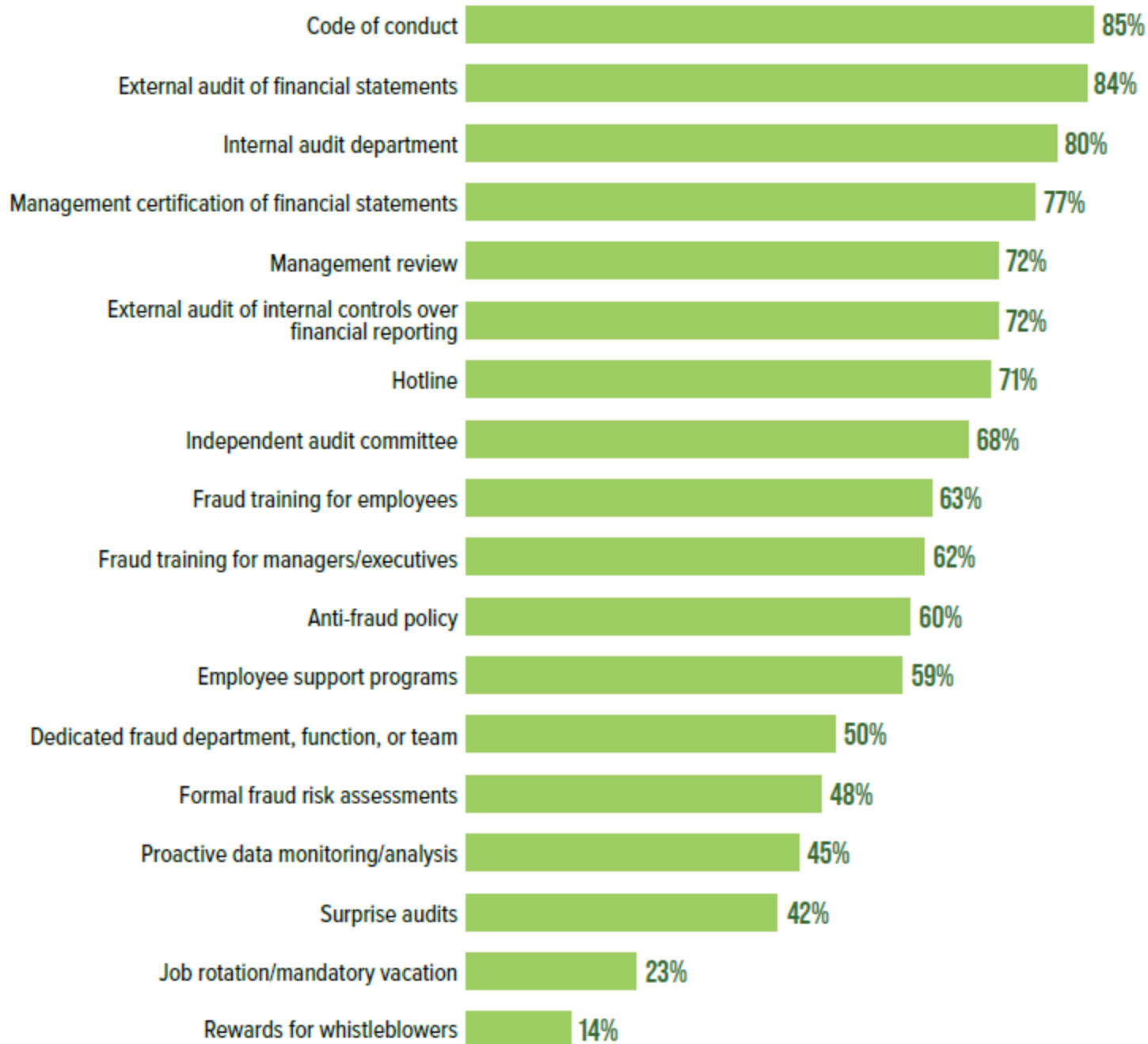
Divorce/family problems

Control issues, unwillingness to share duties

Excessive pressure from within the organization

Bullying or intimidation

No behavioral red flags



Most Common Anti-Fraud Controls



Fraud Hotline and Fraud Reporting

Did the government report all misappropriations of public funds, whether actual knowledge or reasonable cause to believe, to the state auditor and District Attorney?

Is a fraud notice posted?

FIGHT FRAUD, WASTE & ABUSE!

Contact the [Louisiana Legislative Auditor \(LLA\) Hotline](#) if you suspect the misappropriation (theft), fraud, waste or abuse of public funds by anyone.

Information provided to the LLA Hotline may result in an investigation, audit or other review.

When providing information to the LLA Hotline, please include sufficient detail (*describing who, what, where, when, why and how*) to allow us to fully evaluate your information. Although we will consider anonymous information, providing us with your name and telephone number will allow us to contact you with any additional questions that we have. **Your name and telephone number, as well as the status of complaints, are confidential.**

City of Oakdale



- Lisa's responsibilities
 - City clerk
 - Monthly bank reconciliations
 - Check signing
 - Entering electronic transfers of payroll and benefits
 - Supervise accounts payable and payroll
- Two tokens were issued by the bank to make electronic payments
 - Lisa had possession of both
- No review of electronic transfers
- Over 7 years and 3 months Lisa paid herself \$769,136 electronically and paid \$115,304 electronically to her two credit card accounts

Prevention Procedures for Consideration



- Are there **written disbursement policies and procedures**, including processing, reviewing, and approving?
- Does the **governing body** meet monthly and do the minutes reference or include monthly budget-to-actual comparisons on the general fund and semi-annual budgetary comparisons on special revenue funds?
- Does the governing body receive **written updates of the progress of resolving the audit findings** using the corrective action plan at each meeting until the finding is considered fully resolved?
- Were **bank reconciliations** prepared within 1 month of the statement date and were they reviewed timely by a member of management who doesn't handle cash, post transactions, or issue checks?

City of Oakdale



- Accounts payable process
 - AP clerk enters invoices
 - Weekly the AP clerk provides the AP aging to Lisa, who determines which invoices should be paid
 - AP clerk prints checks and gives to Mayor to approve the invoice and sign the checks
 - Lisa backed up the AP clerk
- Lisa often bought items for the city when the city didn't have the cash, then submitted a request for reimbursement
 - Maintenance and office supplies, new equipment
- \$59,945 in city checks were deposited into Lisa's bank account
 - \$30,213 were for approved payroll
 - \$16,354 were reimbursements for expenses
 - \$13,378 had no documentation

Prevention Procedures for Consideration



- Are there **written purchasing policies and procedures** that address
 - How purchases are initiated;
 - How vendors are added;
 - Preparation and approval of purchase requisitions and orders;
 - Controls to ensure compliance with state purchasing laws; and
 - Required documentation?

Prevention Procedures for Consideration



- Is there **proper segregation of duties** such that
 - At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order or making the purchase;
 - At least two employees are involved in processing and approving payments to vendors;
 - The employee responsible for making payments cannot make changes to the vendor master file unless another person reviews those changes;
 - Either the check signer mails the payments or gives the payments to someone other than the person who processed the payments to mail; and
 - Only persons responsible for signing checks approve the electronic disbursements of funds?
- Does **supporting documentation** include an itemized invoice and indicate that goods were received or services were performed satisfactorily?

City of Oakdale Audit Reports

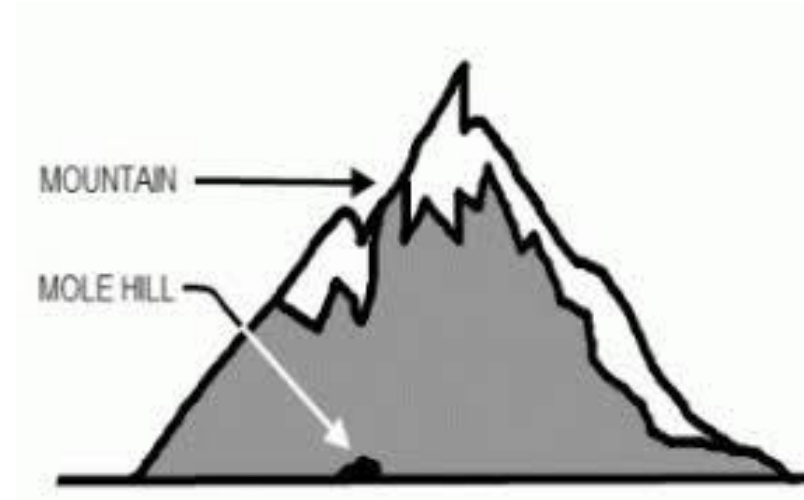
- Findings in multiple consecutive years for failing to amend the budget
- Findings in multiple consecutive years for incomplete, “inaccurately prepared”, or lack of bank reconciliations
- Findings in multiple consecutive years for failing to adequately fund debt reserve and sinking funds
- Findings in multiple consecutive years for failure to pay payroll taxes due to “lack of available funds”
- Finding for late submission of the audit report due to not reconciling the bank statement
- Focus on police department time sheets
- Utility clerk pled guilty to stealing \$4,608

Limitations of a Financial Statement Audit

- Objective is for the auditor to opine on whether the financial statements are fairly stated, in all material respects
 - An unmodified opinion does not mean that no fraud exists
 - The external auditor cannot be part of an entity's internal controls
- Fraud detection is not the auditor's responsibility
- Auditors look at a sample of the entire population of transactions, based on risk assessment
- Auditors may not be able to detect management override

Big Problems Often Start as Little Problems

- Audit findings
- Management Letter comments
- Statewide agreed-upon procedure exceptions (Louisiana)



Prevention Procedures for Consideration



Items to address in your Code of Conduct

1. Ethical standards and integrity
2. Compliance with laws, policies, and procedures
3. Conflict of interest
4. Fraud prevention and reporting
5. Confidentiality and data security
6. Financial responsibility
7. Use of school/district property
8. Interactions with students and the community
9. Workplace conduct and harassment/bullying prevention
10. Social media and public communications
11. Gifts and hospitality
12. Enforcement and disciplinary actions

City of Zachary



- The city paid two vendors \$4.1 million to perform maintenance and utility services over two years
- \$3.5 million of those services were provided without benefit of a written contract
 - Water meter reading
 - Utility maintenance and repair
 - Equipment repair
 - Lift station and water well maintenance and repair

Prevention Procedures for Consideration



- Are there **written contracting policies and procedures** that include
 - Types of services requiring written contracts;
 - Standard terms and conditions;
 - Legal review;
 - Approval process; and
 - Monitoring process?
- Were the **state purchasing laws** complied with?
- Was the contract **approved** properly?
- Were **amendments** within the scope of the original contract and made within contract terms?
- Were the invoices **billed** according to contract terms?

Town of Jonesville



- Responsibilities of utility clerks Leigh Ann and Veronica
 - Collect utility payments
 - Issue receipts
 - Record payments in the utility software
 - Separate cash drawers
 - Each counted her own funds, reconciled amounts collected to payments recorded, and prepared funds for deposit
- No written policies and procedures for collections and adjustments to customer accounts
- \$93,841 was received or recorded but not deposited in the bank over 8 months

District Attorney for the 9th Judicial District



- R.S. 40:2601 *et seq* establishes processes for handling seizures and forfeitures
 - Proceeds of any . . . forfeitures should be deposited in the District Attorney's Special Asset Forfeiture Fund until disposed of pursuant to a court order
 - Law enforcement officers send seized cash and proceeds from the sale of seized assets to the district attorney
 - After assets are distributed per court order and expenses are paid, any remaining funds are allocated 60% to the law enforcement agency making the seizure, 20% to the criminal court fund, and 20% to the district attorney
- Marguerette, bookkeeper, was responsible for
 - Receiving and depositing seized assets and recording in the general ledger
 - Preparing checks drawn on the Special Asset Forfeiture account
 - Reconciling the Special Asset Forfeiture bank account
- \$794,166 in seized assets was not deposited over almost 6 years



District Attorney for the 9th Judicial District



- Bank deposits were not made immediately upon receipt of the funds
- Funds from other sources (federal grants, bond forfeitures, other) were deposited into the Asset Forfeiture account, apparently to replace or substitute for funds that weren't deposited
- \$281,015 in court-ordered judgments were not disbursed
- Judgments were not paid timely after the court order

Prevention Procedures for Consideration



- Are there **written receipts and collections policies and procedures** that address
 - Receiving, recording, and preparing deposits; and
 - Management's actions to determine completeness of all collections for each type of revenue?
- Are **receipts pre-numbered sequentially** and are all receipts accounted for?
- Do **receipts** agree with the software **reports, other documentation**, and the **deposit slip**?
- Is the amount on the deposit slip the same as on the **bank statement** and in the **general ledger**?

Prevention Procedures for Consideration



- Are **collection job duties properly segregated** such that
 - Employees responsible for cash collections don't share cash drawers;
 - Employees who collect cash don't prepare or make bank deposits, unless another employee reconciles collection documentation to the bank deposit; and
 - Employees who collect cash do not post collection entries to the general ledger unless another employee reconciles ledger postings to each other and the deposit?
- Are all employees who handle cash (assets) **bonded or insured**?
- Were deposits made **within 1 business day**?



Ouachita Parish Clerk of Court



- Responsibilities of Deputy Clerk Donald
 - Bookkeeping
 - Payroll
 - Bank deposits
 - Other accounting duties when employees were absent
- Clerk's office provides web-based access to public records
 - For various periods of time (annual, monthly, daily)
 - Pay for these online subscriptions using PayPal
- Donald had sole access to the PayPal account
 - No monitoring of the PayPal account
 - No reporting on PayPal activity
 - \$344,226 was transferred to Donald's accounts over 4 years, 37% of the total online payments received

Prevention Procedures for Consideration



Items that should be addressed in your district's third-party payment processor use policy:

- 1. Authorization and approval** - who? Board, Superintendent, principals, teachers?
- 2. Approved uses and restrictions** - types of payments, prohibit personal use of district accounts
- 3. Account ownership and control** - school or district name only, controls over login credentials and administrative access
- 4. Payment processing and reconciliation** - require timely transfers to school or district bank account, reconciliation procedures and frequency, transaction details



Prevention Procedures for Consideration

Does your district's third-party payment processor use policy address all of the following (continued):

- 5. Security and fraud prevention** - safeguard information, require periodic audits of payment activity
- 6. Fees and cost management** - who will pay the transaction fees, compare cost/benefit with other payment methods, periodically review contract with third-party payment processor
- 7. Compliance and legal considerations** - compliance with state and federal regulations, record retention, procedure for discontinuing service

City of Ville Platte



- Ordinance 12-08-15-2 established the Mayor's annual salary at \$70,000 and Board members' annual salary at \$8,400 each
- In addition to the compensation above, the Mayor received \$6,000 vehicle allowance, \$1,500 phone allowance, and \$1,500 in per diem payments for attending Board meetings
- In addition to the above, 6 Board members received \$3,600 vehicle allowance and per diem payments between \$1,440 and \$1,500 each (\$31,734 total)
- Excess payments totaled \$40,734 over 12 months

Prevention Procedures for Consideration



- Are there **written payroll/personnel policies and procedures** that address
 - Payroll processing;
 - Reviewing and approving time and attendance records, including leave and overtime worked; and
 - Approval process for rates of pay or approval and maintenance of pay rate schedules?
- Are there **written travel and expense reimbursement policies and procedures** that address
 - Allowable expenses;
 - Dollar thresholds by category of expense;
 - Documentation requirements; and
 - Required approvers?

Prevention Procedures for Consideration



- If reimbursed on **per diem rates**, are those rates no more than the rates established by the state or U.S. General Services Administration (gsa.gov)?
- If reimbursed using actual costs, does documentation include **original itemized receipts**?
- Is there documentation of the **public purpose**?
- Are reimbursements **reviewed and approved in writing** by someone other than the person being reimbursed?
- Was the expense also paid by the organization's credit card?



Prevention Procedures for Consideration

- Are employees **paid their authorized pay rate** that is included in their personnel file?
- Is **daily attendance and leave documented** for all employees and elected officials who earn leave?
- Are **leave and attendance approved** by a supervisor?
- Is leave taken **recorded in the person's leave record**?
- Are **termination payments** made in accordance with policies and leave records?
- Are **third-party amounts** (taxes, retirement, insurance, garnishments, etc.) **paid and reported timely**?

Madison Parish Hospital Service District



- Wendell, hospital administrator
 - Received \$283,437 in fraudulent billings from a vendor
 - Received \$749,378 in fraudulent billings by an insurance agent
 - Received wages of \$60,389 in excess of his authorized rate
 - Was improperly reimbursed for \$11,023 in mileage reimbursements during the same period he received a vehicle allowance and charged \$8,703 in fuel on his hospital credit card
 - Received \$9,500 in travel advances and provided no documentation on how these funds were used
 - Received free landscaping services from a hospital vendor

Madison Parish Hospital Service District



- During Wendell's tenure as hospital administrator the hospital also
 - Improperly used \$335,931 in public funds to provide health and life insurance benefits to commissioners and non-employees
 - Entered into contracts with Wendell's family members, and hospital doctors and employees
 - Spent \$404,510 of public funds on non-public purposes
 - Improper nursing scholarships
 - Education, licensing, and travel expenses incurred by a contract attorney
 - Office celebrations, gifts, and flowers
 - Payments of unused sick leave
 - Payments of voluntary insurance policies

Madison Parish Hospital Service District

- 7 credit cards were issued to
 - Hospital administrator, Wendell
 - Board chairman, Hayward
 - Administrative assistant
 - Purchasing director
 - Other selected department supervisors
- Wendell charged \$69,433 in personal charges over 3.5 years, including part of his daughter's wedding
- Hayward charged \$4,159 in airfare for his spouse for 6 separate trips
- A commissioner, Marjorie, charged \$2,254 in airfare for her spouse for 3 separate trips





Prevention Procedures for Consideration

- Are there **written credit card policies and procedures** that address
 - How cards are controlled;
 - Allowable business uses;
 - Documentation requirements;
 - Required approvers of statements; and
 - Monitoring card usage?
- Are **original itemized receipts** attached to each monthly statement?
- Is each statement and the accompanying receipts **reviewed and approved by someone other than the card holder**?
- Were any **finance fees or late charges** billed and paid?

Prevention Procedures for Consideration



- Is each transaction supported by
 - An original itemized receipt that identifies precisely what was purchased,
 - Written documentation of the business/public purpose, and
 - Documentation of the individuals participating in meals?
- What are the compensating controls for **missing receipts**?

Madison Parish Hospital Service District Audit Reports

- FYE 12/31/2007, 2008, 2009 – no findings
- FYE 2010 – failed to report life insurance benefit over \$50,000 on employee W-2s
- FYE 2011 (issued in September 2012) – disclaimed opinion and 29 findings
- FYE 2012 (new auditor) – disclaimed opinion and 36 findings
- FYE 2013 – disclaimed opinion and 31 findings
- FYE 2020 – (new auditor) – unmodified opinion and no findings

Catahoula Parish Fire Protection District No. 4 – Sandy Lake



- In 2017 District 4 entered into a \$435,717 nine-year lease purchase agreement without Bond Commission approval
- In 2018 District 4 entered into a \$20,752 three-year lease purchase agreement without Bond Commission approval
 - The vehicle in question was, in fact donated
- Both lease purchase agreements were refinanced in 2019 without Bond Commission approval
- In 2017 District 4 obtained an unsecured loan in the amount of \$15,095 without Bond Commission approval

Catahoula Parish Fire Protection District No. 4 – Sandy Lake



Fire Chief, Robert, also

- Was paid \$12,269 in excess of his monthly salary
- Received \$4,687 of unsubstantiated reimbursements
- Appears to have spent \$22,495 of District 4's money to purchase items for personal use
- Appears to have authorized \$57,067 of questionable purchases
- Falsified signatures on lease purchase documents
- Failed to provide for an annual review by an auditor
- Falsified Board minutes



Prevention Procedures for Consideration

- Are there **written debt service policies and procedures** that address
 - Debt issuance approval;
 - Continuing disclosure and EMMA reporting requirements;
 - Debt reserve requirements; and
 - Debt service requirements?
- Was **Bond Commission approval** obtained for all debt?
- Did the government **comply with debt reserve** and other bond covenants?

Hi!
Your files are encrypted by Netwalker.
All encrypted files for this computer has extension: .e76748

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If for some reason you read this text before the encryption ended, this can be understood by the fact that the computer slows down, and your heart rate has increased due to the ability to turn it off, then we recommend that you move away from the computer and accept that you have been compromised.
Rebooting/shutdown will cause you to lose files without the possibility of recovery.

--

Our encryption algorithms are very strong and your files are very well protected,
the only way to get your files back is to cooperate with us and get the decrypter program.

Do not try to recover your files without a decrypter program, you may damage them and then they will be impossible to recover.

For us this is just business and to prove to you our seriousness, we will decrypt you one file for free.
Just open our website, upload the encrypted file and get the decrypted file for free.

--

Steps to get access on our website:



Ransomware attack!



Prevention Procedures for Consideration

- Are there **written IT disaster recovery/business continuity policies and procedures** that address
 - Identification of critical data and frequency of backups;
 - Backup is stored separately from the network;
 - Periodic testing/verification that backups can be restored;
 - Use of antivirus software on all systems;
 - Timely application of all available system and software patches/updates; and
 - Identification of personnel, processes, and tools needed to recover operations after a critical event?



Prevention Procedures for Consideration

- Did a **backup of the most critical data occur within the past week?**
- Are backups **not stored** on the government's local server or network and are they **encrypted?**
- **Have backups been tested and verified that they can be restored,** and did that test/verification occur **within the past 3 months?**
- Is **current antivirus software installed** on all computers and is it **active?**
- Are operating systems and accounting software in use **currently supported** by vendors?
- Has access to the network been disabled or removed for terminated employees?

Bank Account Frauds

- FBI and Secret Service are overwhelmed so generally deal with \$10 million or more in diverted payments
- **Check fraud has increased by 84%**
- A typical business account has **200 attempts per day by fraudsters** – this is how many a bank has to stop!
- Some fraudsters are posing as IT departments checking that the ACH payment is working!

Check Frauds in Louisiana

- Parish – Check stolen from post office or recipient’s mail box, check payee changed; \$17,029
- School board – Check mailed to vendor in one state was cashed by an individual in another state; \$5,344
- Council on Aging – Check was mailed then altered; \$9,816
- City – Counterfeit check was created in another state (using victim’s routing and account number); \$1,908
- Fire District – 8 fraudulent and counterfeit checks (some altered); \$100,657
- Recreation District – 2 counterfeit checks; \$19,982



Electronic Payment Frauds in Louisiana

- Parish – ACH debits hitting the bank account – about \$21 each month for 10 months (\$208 total)
- Sheriff – Employee email accounts were hacked and payroll direct deposit information was changed; \$3,819
- Town – Employee Googled the bank’s website, entered her user ID and password to log in, couldn’t, called the number, and gave her security information to the caller; \$0
- Levee District – Business email compromise for insurance premium payments; \$234,741
- Finance Authority – Business email compromise for payment to vendor; \$66,667



Banking Preventive Measures

- ✓ Look at every bank account every day
- ✓ Purchase Payee Positive Pay, which matches check number, amount, and payee
- ✓ Pay vendors electronically via ACH and verify changes to any information with vendor using contact information in the accounting software (preferably to a known phone number), not an email
- ✓ Install debit blocks on accounts with no checks
- ✓ ACH positive pay
- ✓ Close accounts that have had fraudulent activity
- ✓ Reconcile every bank account within 30 days – no exceptions



Banking Preventive Measures

- ✓ Consider changing bank accounts annually, especially operating and payroll
- ✓ Keep signature cards updated
- ✓ Make sure new vendors are legitimate – credit history, registered with the Secretary of State, etc.
- ✓ Train employees on fraud awareness and test them
- ✓ Call on the phone instead of sending an email
- ✓ Have a plan when a security breach happens
- ✓ Call vendors after wiring large payments to verify they received it
- ✓ Don't post signatures online



Thank You!

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