



Lauterbach & Amen, LLP

CERTIFIED PUBLIC ACCOUNTANTS

FRAUD RISK



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PARTNER

Actuarial

Audit

**Financial
Services**

Pension

Tax

AGENDA

- What is Fraud
- Common Fraud Schemes
- Management's Role
- Auditor's Role
- Top 10 Controls
- Whistleblowers



Corruption

Using position to influence decisions, bribery and abuse of power



Financial Statement Misstatement

Omission of critical info to the financials, bolstering financials

What is Fraud?

Any activity that relies on deception in order to achieve a gain.

Asset Misappropriation

Stealing assets of the entity, such as cash, inventory or other tangible assets

Payment for Fictitious Goods or Services

Invalid Vendor Payments

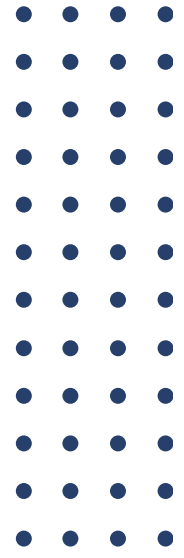
Misusing Resources

Payroll Fraud



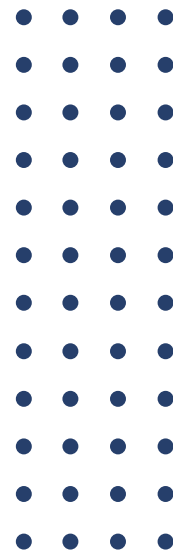
Credit Card Fraud





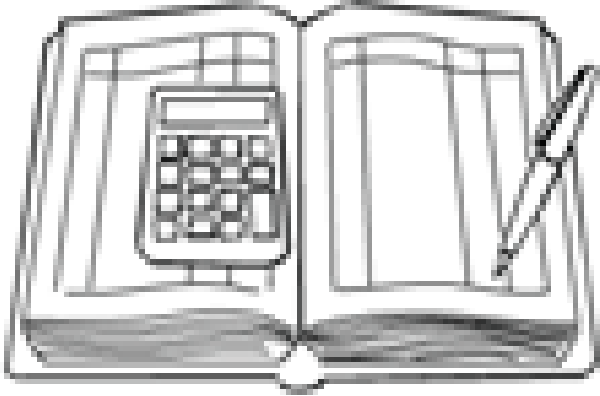
Petty Cash Fraud





Kiting Fraud

Kiting



Check is withdrawn from one bank account and deposited into another but no record is made of the cash disbursement until after year-end.





Payroll Fraud





This is mine..



How Lapping Works

Customer A

Customer B

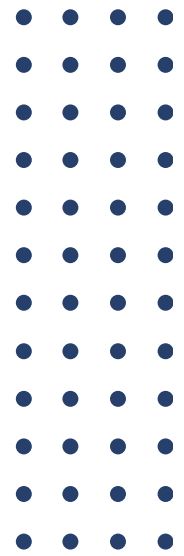
Customer C

Payment
Received

Payment
Applied to



Lapping Fraud



Work Travel
Fraud

Expense Report

Employee:

To:

Purpose:

Department:

Date Subm:

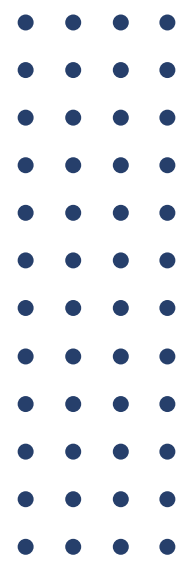
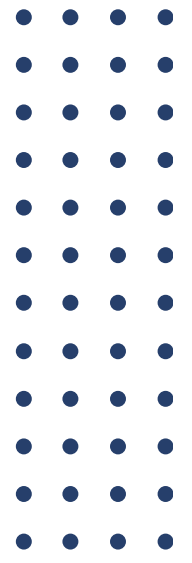
Expense Type

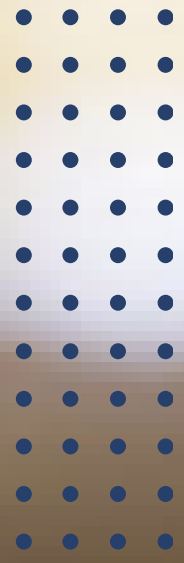
Estimate

Monthly Expense

Expense
Mortgage
Taxes
Car Payment
Car Insurance
Home Owners Insurance
Net

Income and Expenses
Previous month's balance
Available Cash
Additional Income
Monthly Expenses
Planned Expenses
Savings





Double Dipping
Fraud



Communicate Internal
Control Expectations

Continually Assess
Internal Control Risk

**MANAGEMENT'S
ROLE
1ST RESPONSIBLE PARTY**

Establish and Maintain
Effective Control
Policies and
Procedures

Establish Sound
Internal Control
Environment





***BUT...
THE GOVERNING
BOARD IS THE
FINAL
RESPONSIBLE
PARTY***



AUDITOR'S ROLE

- Not their job to find fraud.
- Do determine if the financial statements as presented are materially correct.
- Do assess the overall control environment.



TOP 10 CONTROLS



10. Avoid Related Party Transactions

Require competitive bidding, discourage hiring of relatives

9. Protect Cash and Checks Received

Reconcile cash/checks daily to support, centralize cash receipting



8. Protect Checks Against Fraudulent Use

Lock blank check stock, mark invoices paid

7. Protect Petty Cash

Limit amount and access to petty cash, require original receipts, reconcile monthly

6. Ensure Assets Used only for Government Use

Examine expense reports, maintain vehicle logs, maintain equip. inventory

TOP 10 CONTROLS



5. Formal Policies and Procedures

Covering cash receipts, cash disbursements, payroll, expense reimbursement, credit card, etc.

4. Ensure Board Oversight of Management

Should monitor finances, approve policies, require auditors to present results



3. Restrict the Use of Credit Cards

Limit #, set limits for \$ and transactions, require original receipts, signoff on policy

2. Reconcile Bank Accounts Monthly

Completed by someone w/out bookkeeping or check signing authority

1. Segregation of Duties

Separate initiation functions from recording functions from reconciling functions

WHISTLEBLOWERS

- Whistleblowing policies are recommended mechanisms to provide additional internal control oversight.
- The policy should allow employees to report instances of ethical misconduct, waste, fraud, etc.
- Strong protections for whistleblowers should be outlined in the policy
- Allegations should be investigated by someone or a committee independent of the situation
- Consequences of abuse should also be clearly outlined in the policy
- Procedures for reporting allegations should be clearly defined





THANK YOU

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