



Fraud: Current Trends and Case Studies

Rochelle Friend, CPA, CFE

Manager

June 14, 2017



© 2017 Elliott Davis, PLLC



This material was used by Elliott Davis during an oral presentation; it is not a complete record of the discussion. This presentation is for informational purposes and does not contain or convey specific advice. It should not be used or relied upon in regard to any particular situation or circumstances without first consulting the appropriate advisor. No part of the presentation may be circulated, quoted, or reproduced for distribution without prior written approval from Elliott Davis.

2

© 2017 Elliott Davis Decosimo, PLLC



Presentation Overview

- Overview and selections from the 2016 Report to the Nations on Occupational Fraud and Abuse,* published by the Association of Certified Fraud Examiners (ACFE)
- Fraud Risk Management Guide**
- Example real-life fraud case studies and anecdotes
- “Take-Aways”

*Copyright 2016 by the Association of Certified Fraud Examiners, Inc.

** Copyright 2016 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)

3

© 2017 Elliott Davis Decosimo, PLLC

Speaker Background

- Manager, Raleigh office
- Over 6 years experience in public accounting
- Financial statement audit experience in industries including state and local government, not for profit, and technology and life sciences

4

© 2017 Elliott Davis Decosimo, PLLC

ACFE's 2016 Report to the Nations

- ACFE surveys the population of all certified fraud examiners and compiles results
- 2016 report is based on 2,410 cases of occupational fraud as reported by CFEs
- Provides valuable information on how fraud is committed, how it is detected, and how organizations can reduce their vulnerability to the risk of fraud
- Entire report available for download:
<http://www.acfe.com/rtn2016/resources/downloads.aspx>

5

© 2017 Elliott Davis Decosimo, PLLC

What is Fraud?

“In its broadest sense, fraud can encompass any crime for gain that uses deception as its principal modus operandus .”

- Association of Certified Fraud Examiners

6

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo

Why Does Occupational Fraud Occur?

Motivates the Crime:

- Inability to pay one's bills
- Need to meet productivity targets at work
- Desire for status symbols

“I was only borrowing the money.”
“I was entitled to the money.”
“I had to steal to provide for my family.”

Method by which the crime can be committed. Abuse of position or trust with a low perceived risk of detection.

7 © 2017 Elliott Davis Decosimo, PLLC

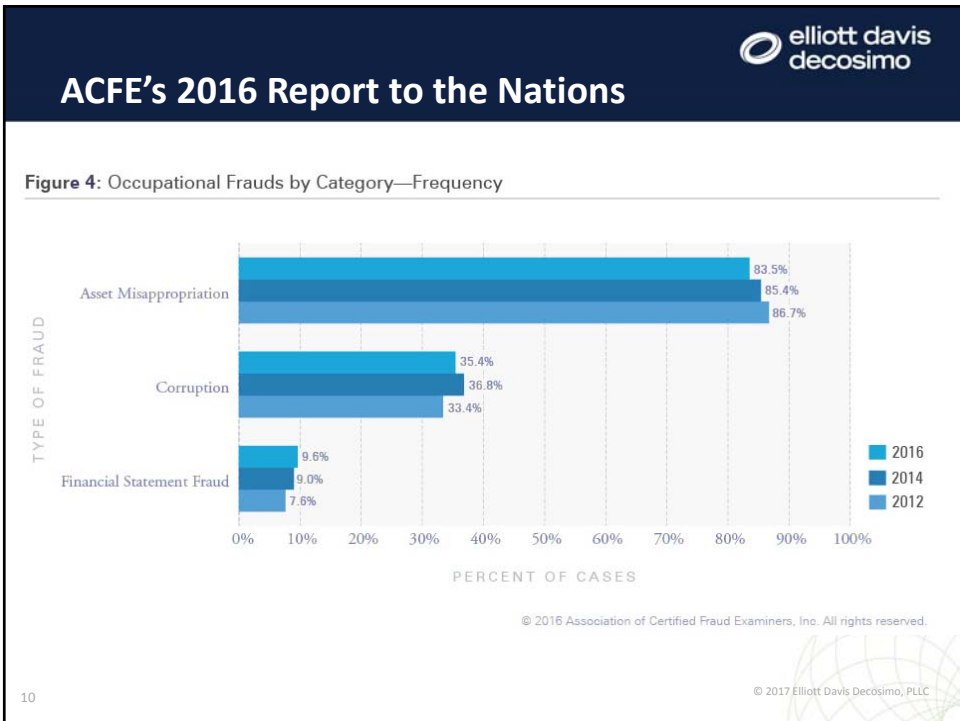
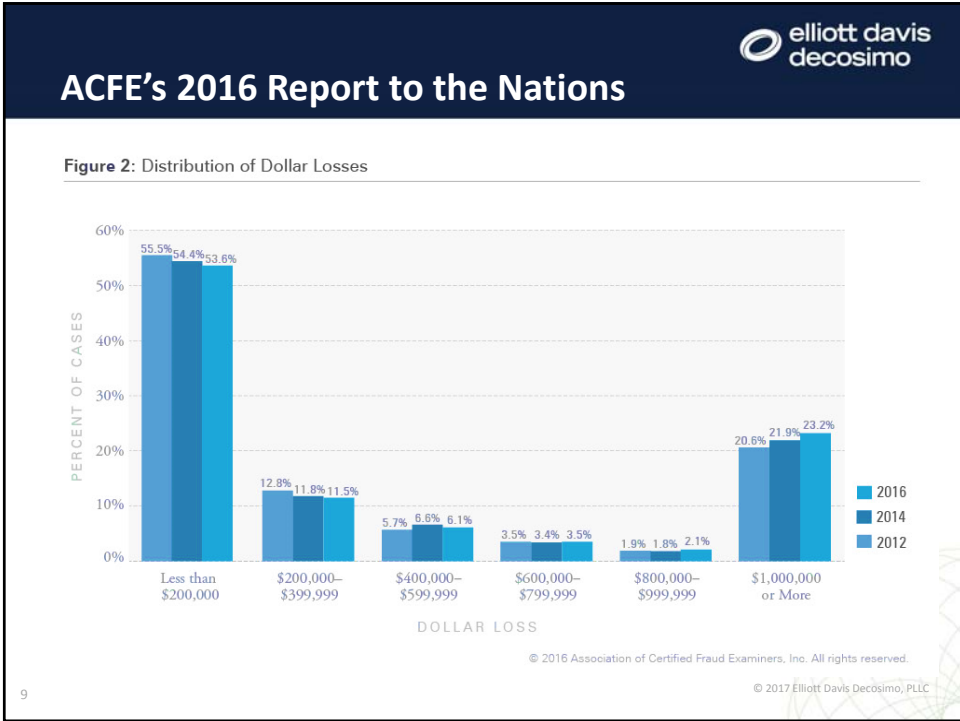
elliott davis decosimo

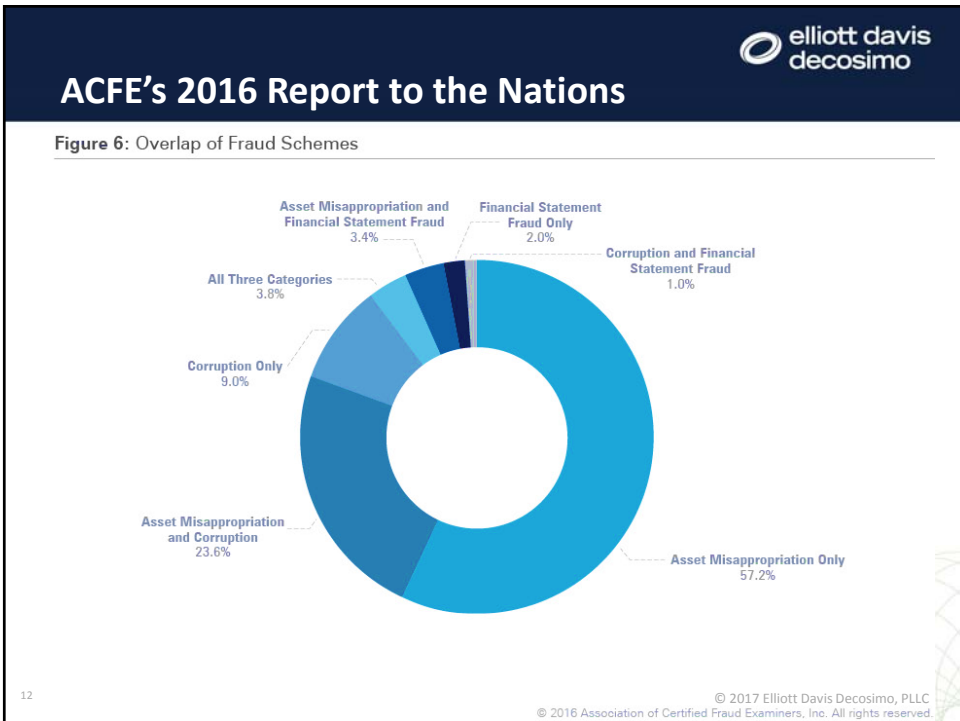
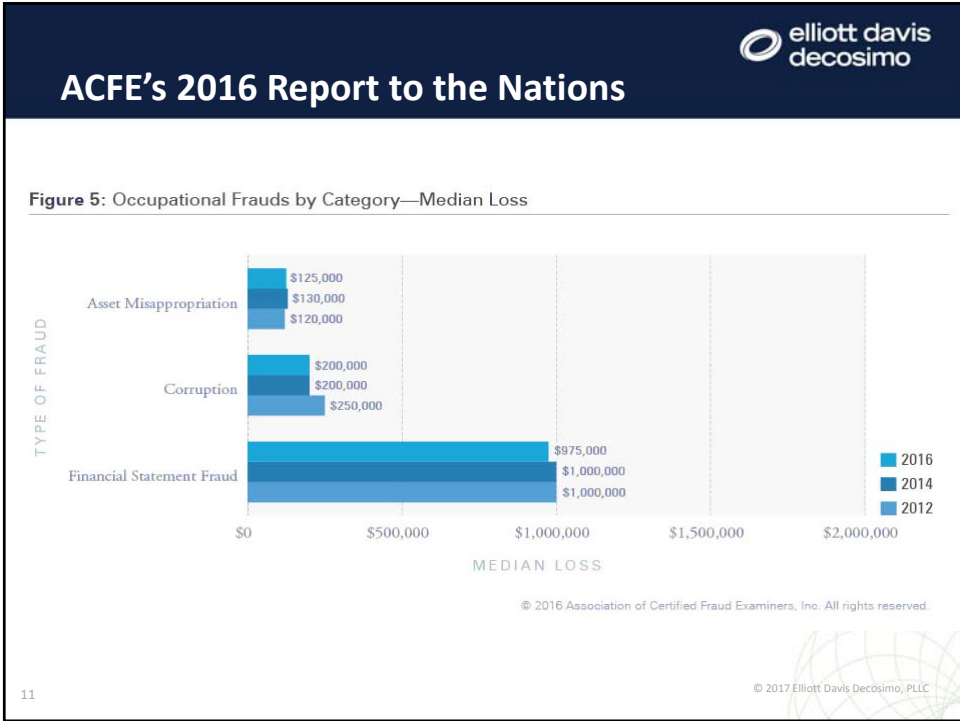
ACFE's 2016 Report to the Nations

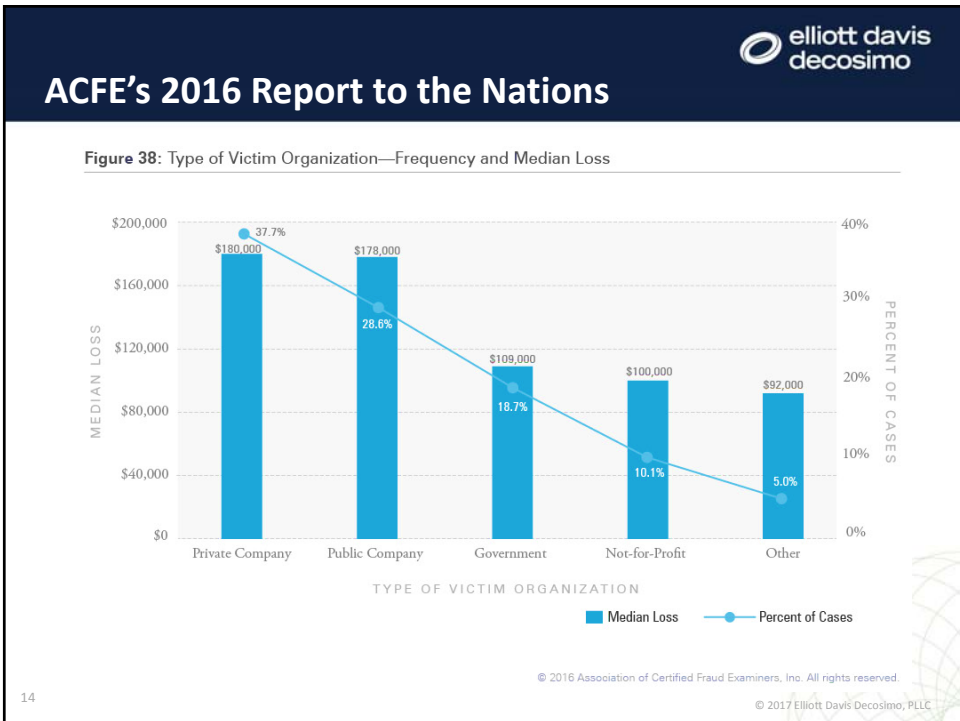
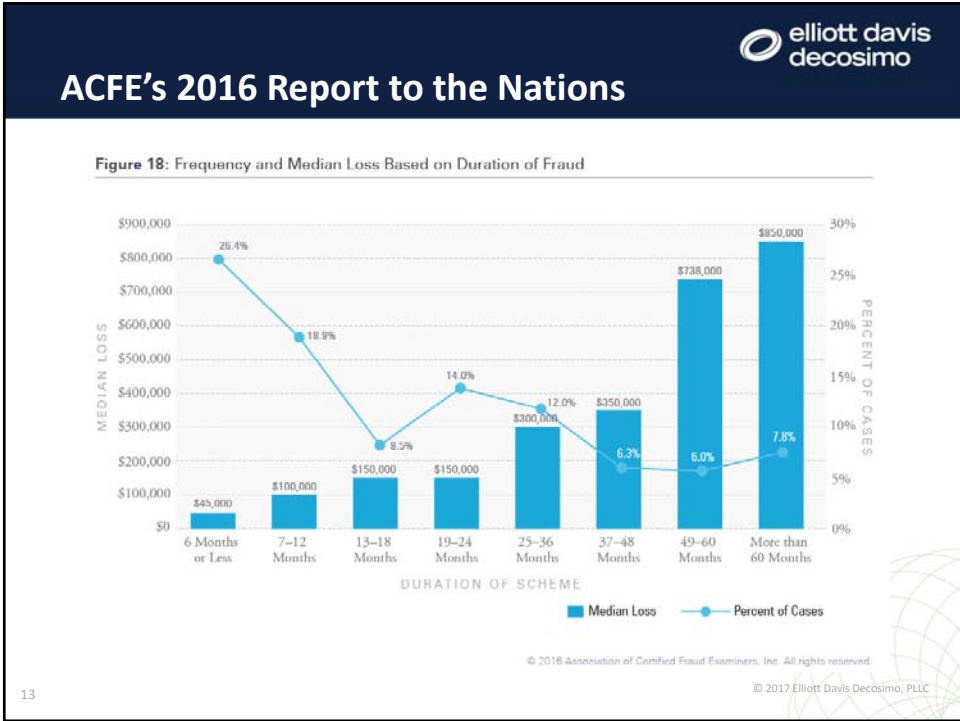
“The cost of fraud is the equivalent of a financial iceberg; some of the direct losses are plainly visible, but there is a huge mass of hidden harm that we cannot see.”

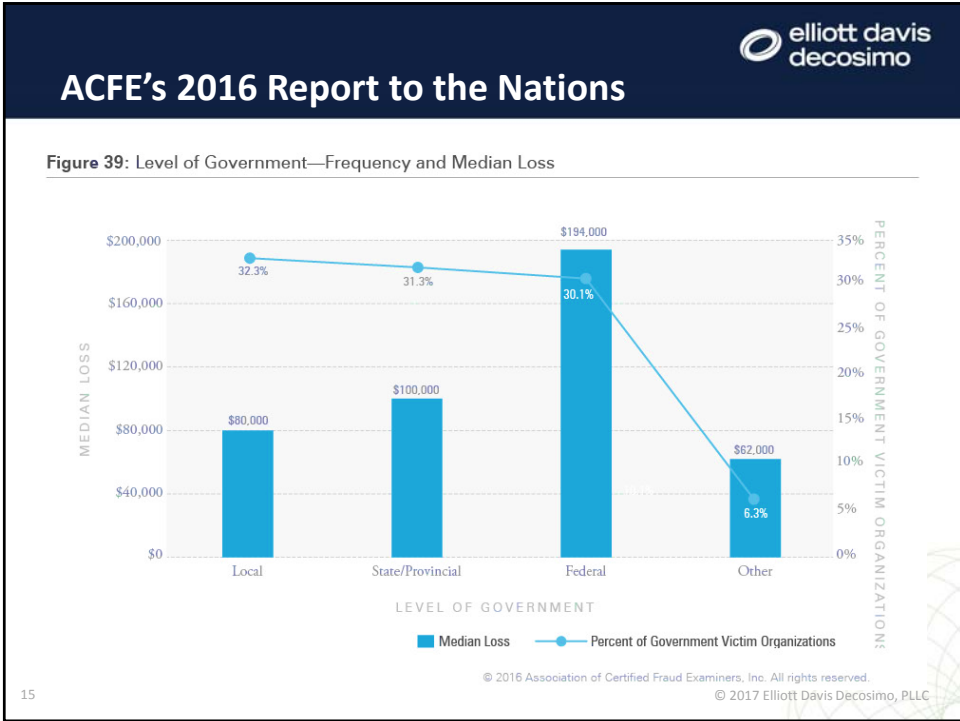
- 2014 Report to the Nations, ACFE

8 © 2017 Elliott Davis Decosimo, PLLC









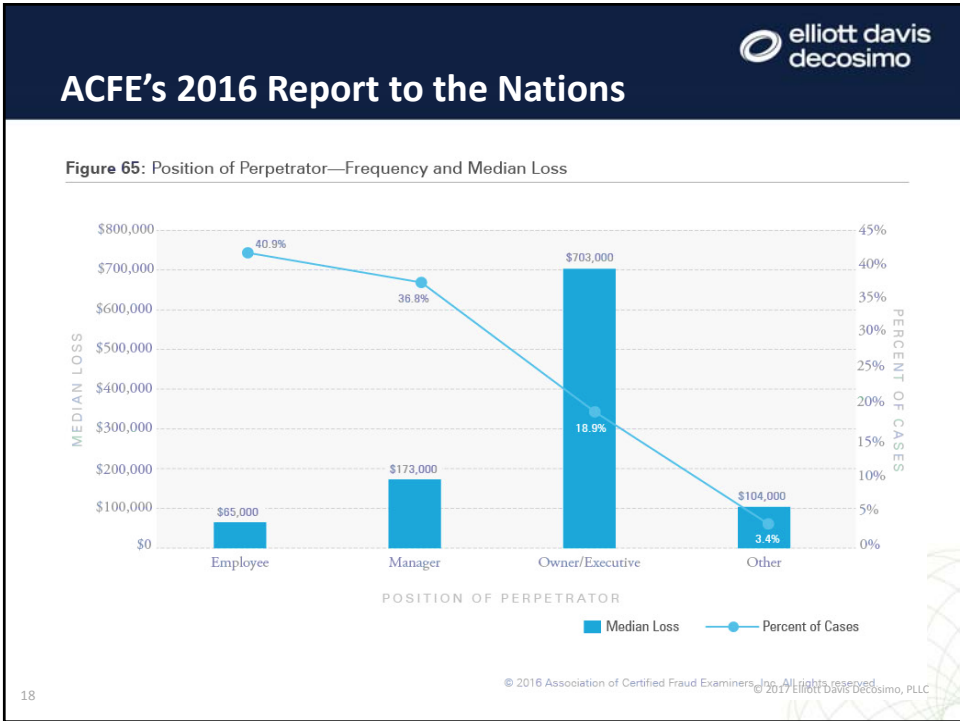
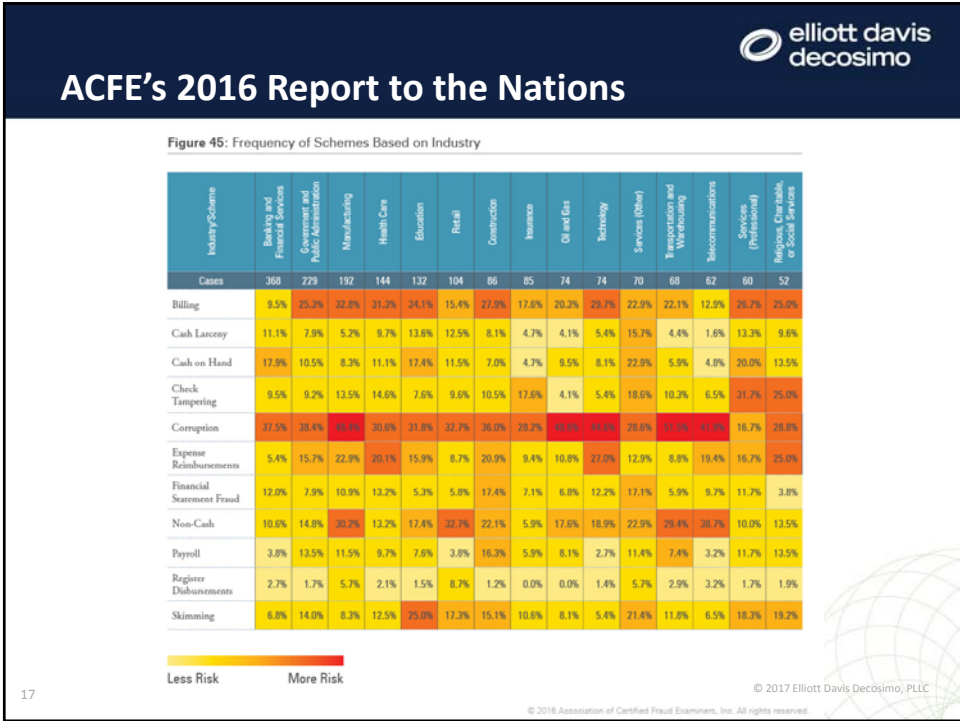
elliott davis decosimo

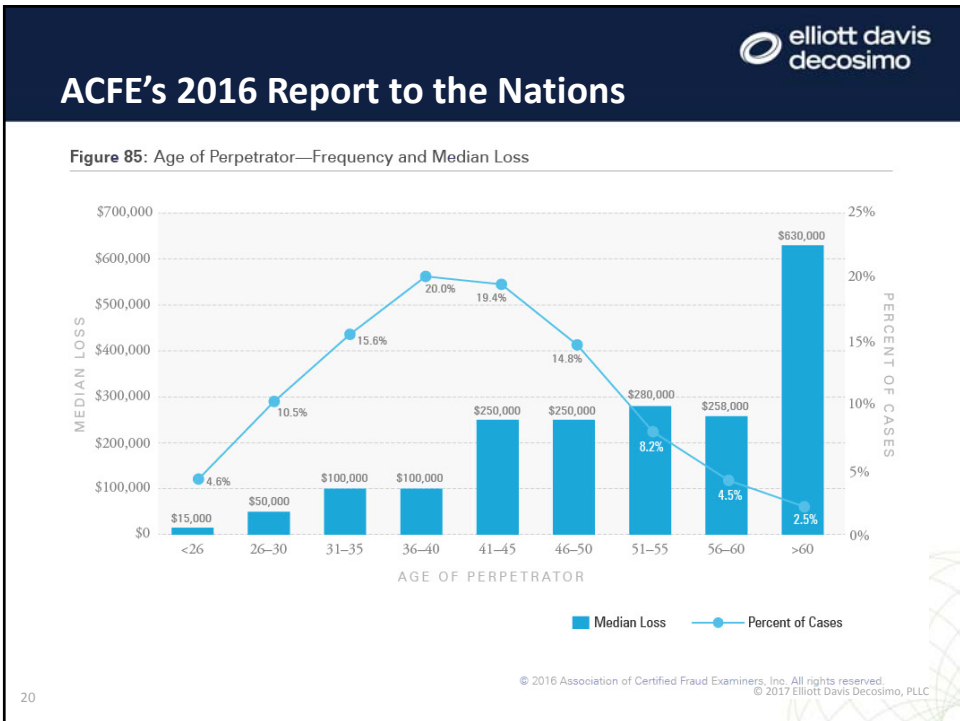
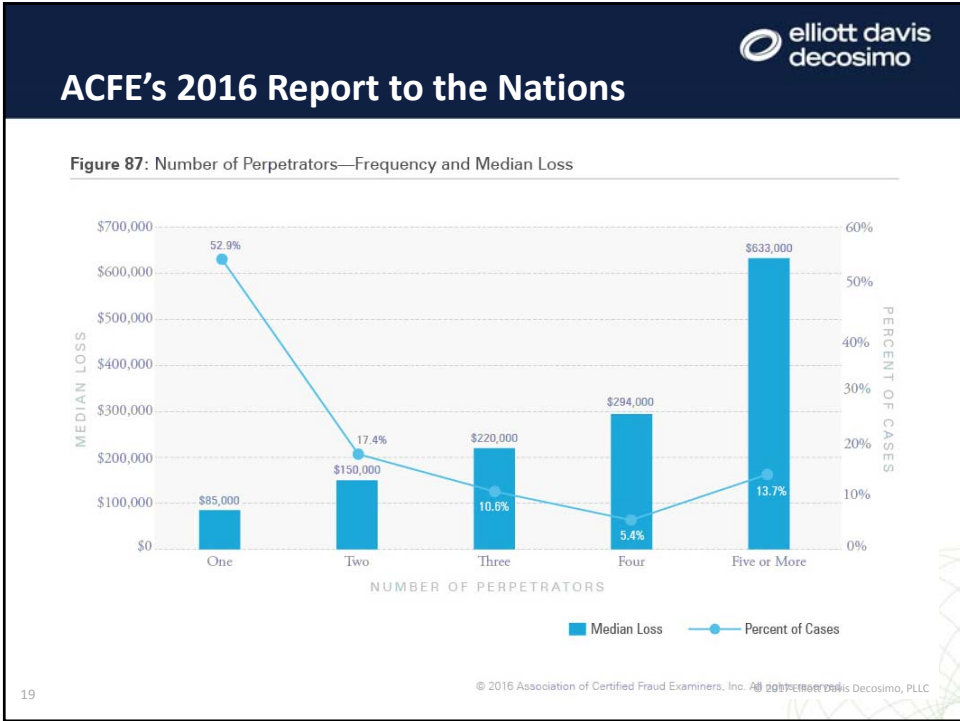
ACFE's 2016 Report to the Nations

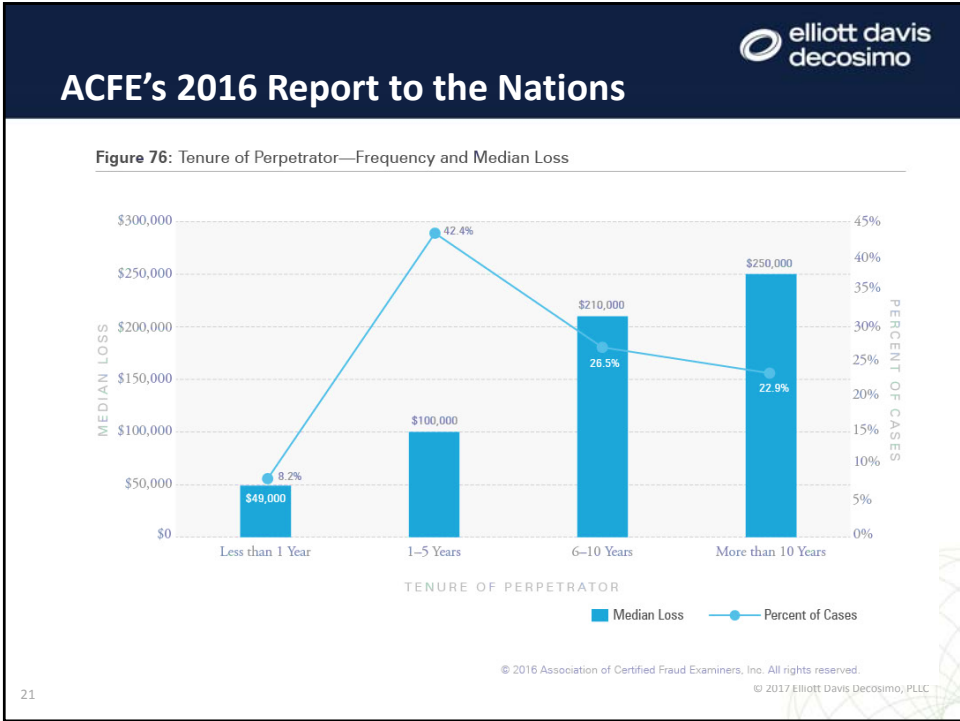
Figure 44: Industry of Victim Organizations (Sorted by Median Loss)

Industry	Number of Cases	Percent of Cases	Median Loss
Mining	20	0.9%	\$500,000
Wholesale Trade	36	1.6%	\$450,000
Services (Professional)	60	2.7%	\$310,000
Agriculture, Forestry, Fishing, and Hunting	44	2.0%	\$300,000
Oil and Gas	74	3.4%	\$275,000
Construction	86	3.9%	\$259,000
Technology	74	3.4%	\$235,000
Communications and Publishing	16	0.7%	\$225,000
Real Estate	41	1.9%	\$200,000
Manufacturing	192	8.8%	\$194,000
Telecommunications	62	2.8%	\$194,000
Banking and Financial Services	368	16.8%	\$192,000
Transportation and Warehousing	68	3.1%	\$143,000
Government and Public Administration	229	10.5%	\$133,000
Health Care	144	6.6%	\$120,000
Insurance	85	3.9%	\$107,000
Utilities	40	1.8%	\$102,000
Other	153	7.0%	\$100,000
Services (Other)	70	3.2%	\$100,000
Retail	104	4.8%	\$85,000
Religious, Charitable, or Social Services	52	2.4%	\$82,000
Arts, Entertainment, and Recreation	27	1.2%	\$75,000
Education	132	6.0%	\$62,000

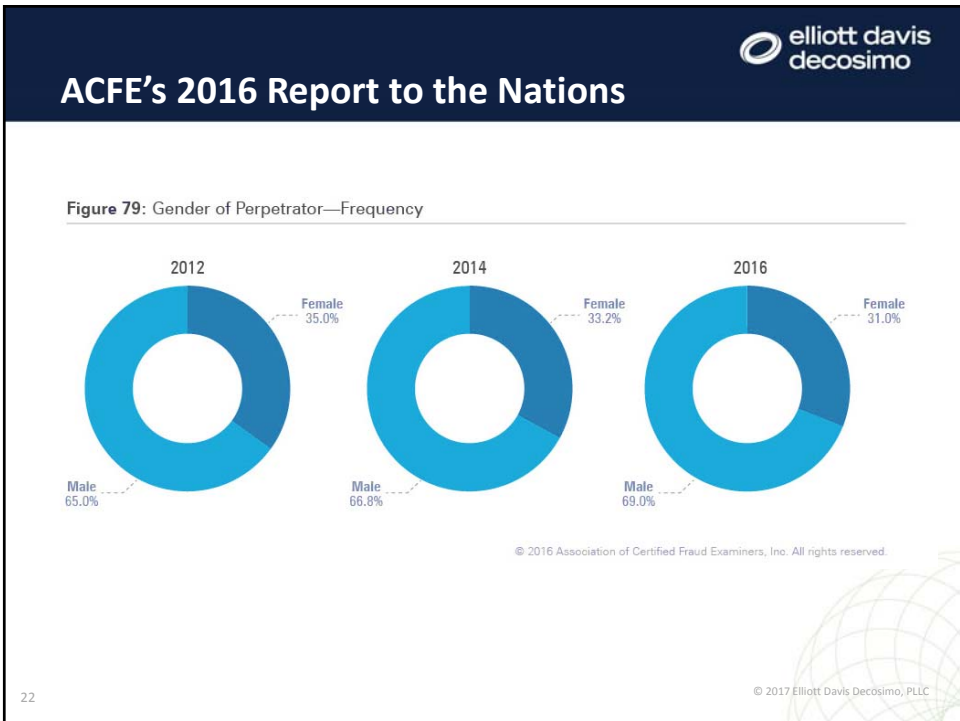
© 2016 Association of Certified Fraud Examiners, Inc. All rights reserved. © 2017 Elliott Davis Decosimo, PLLC



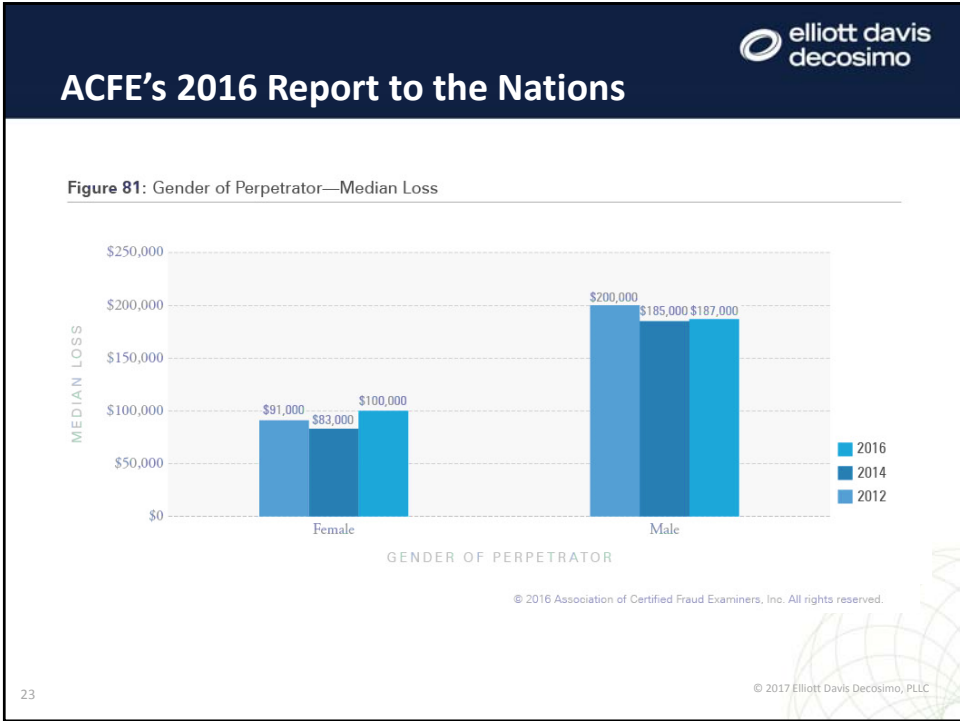




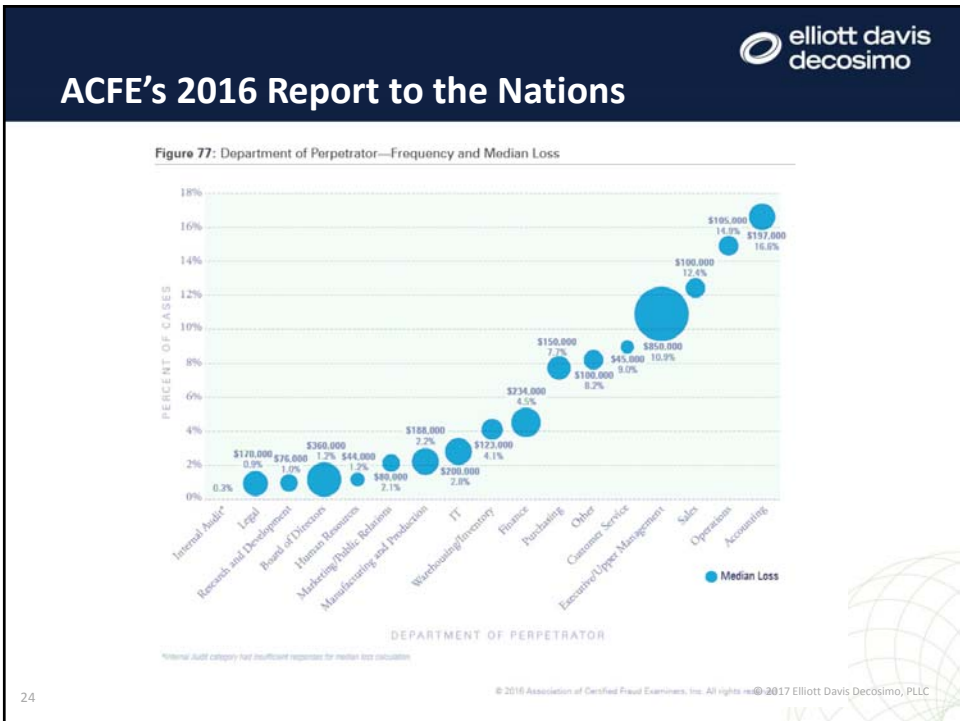
21



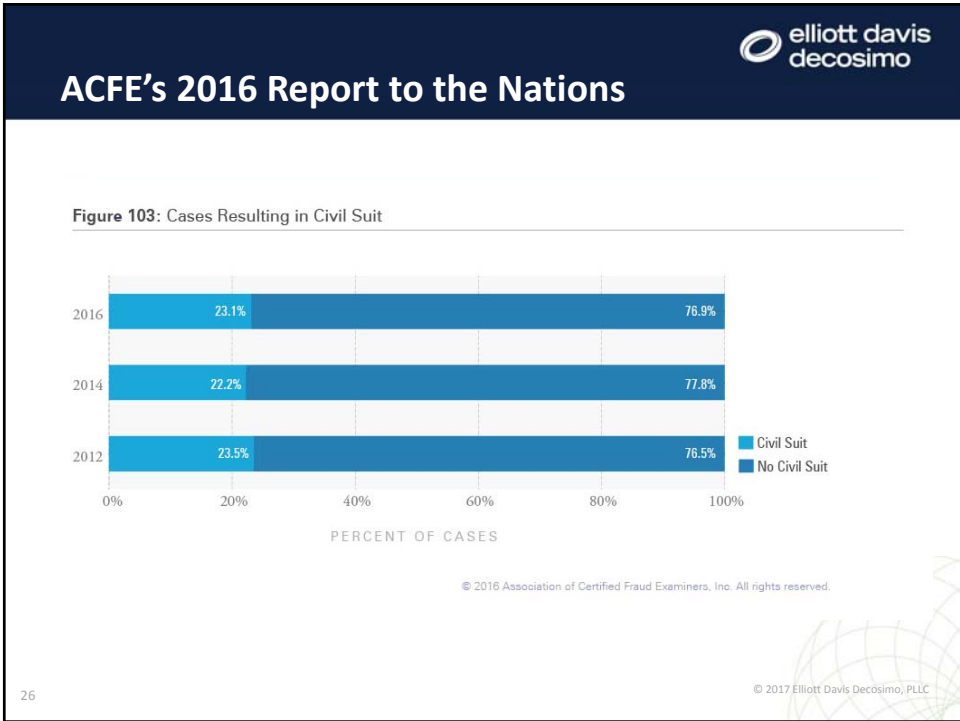
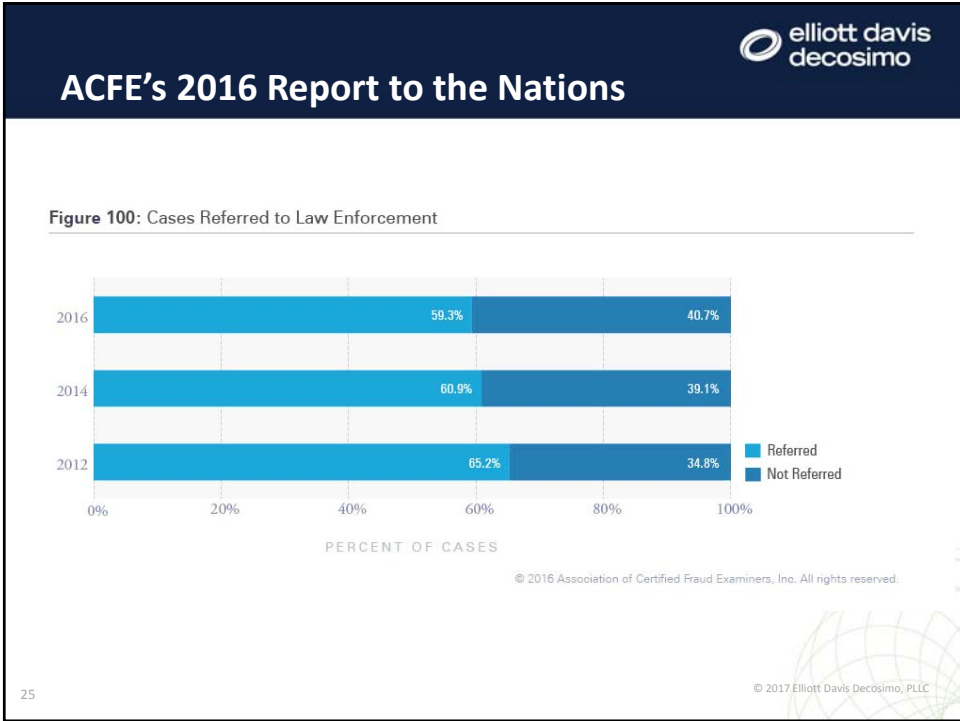
22

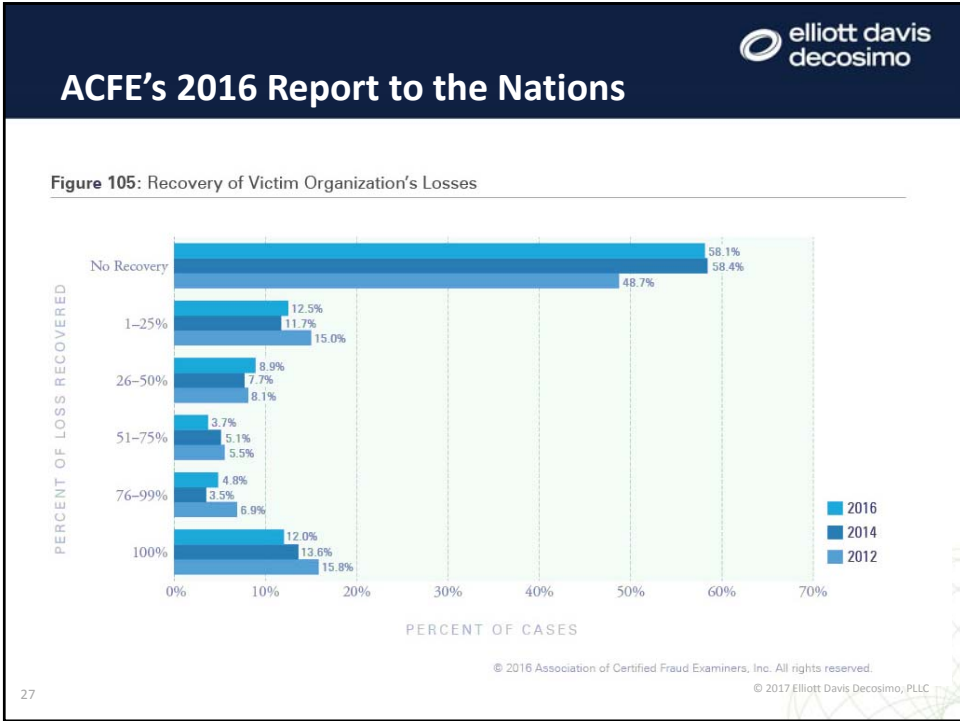


23

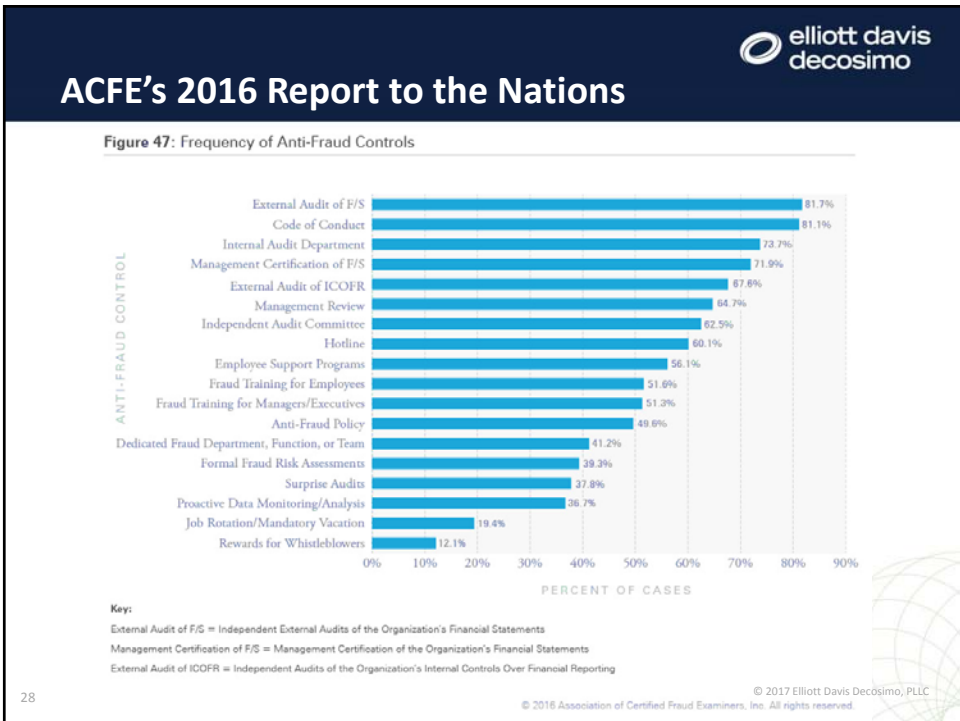


24

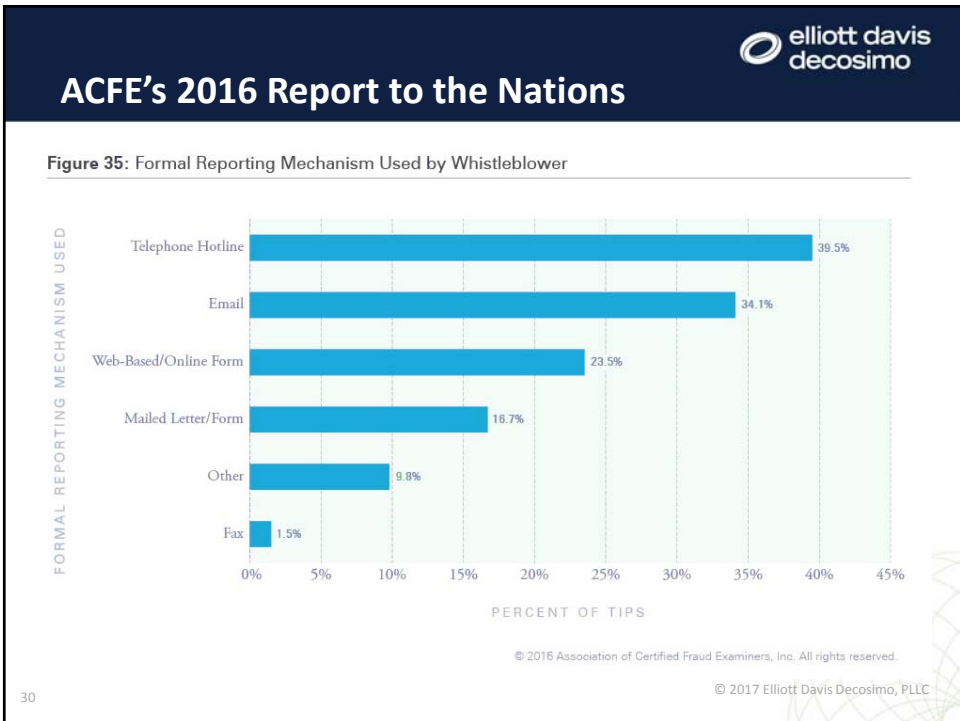
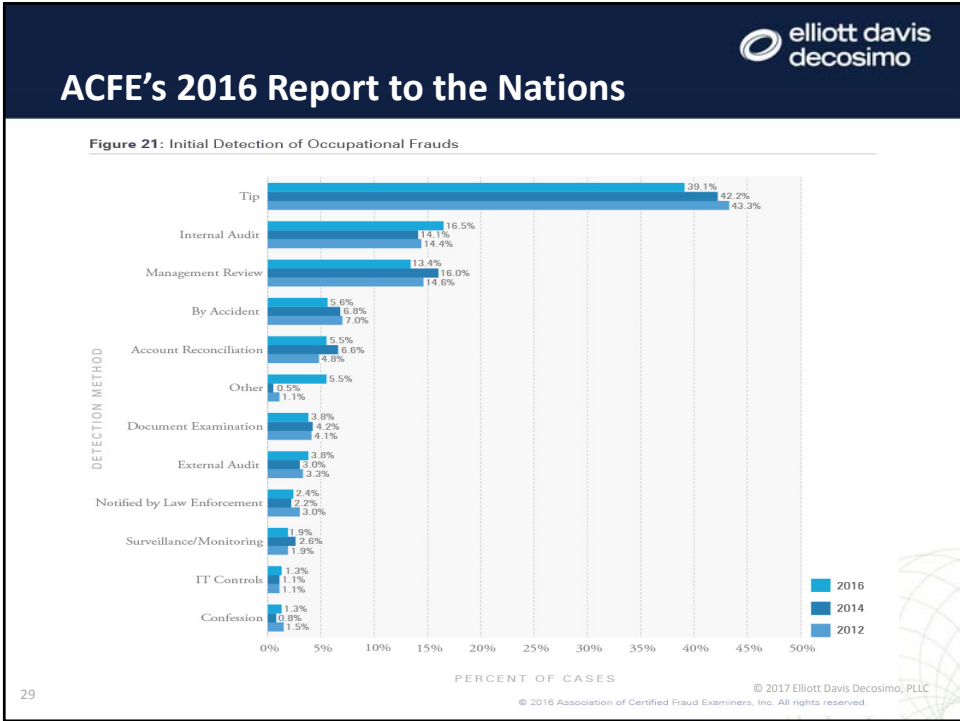


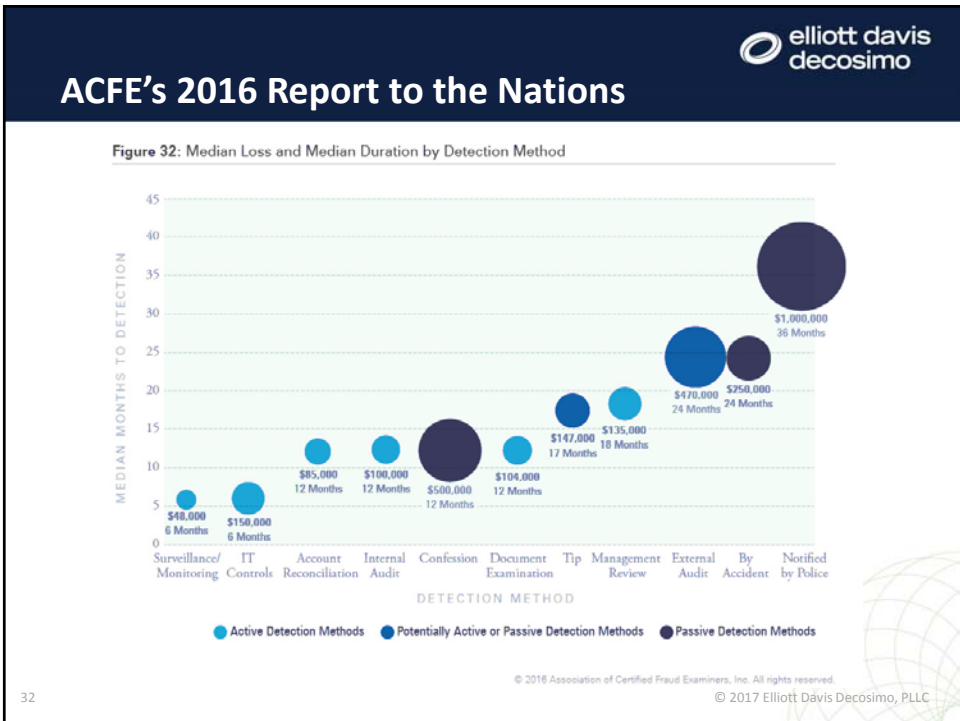
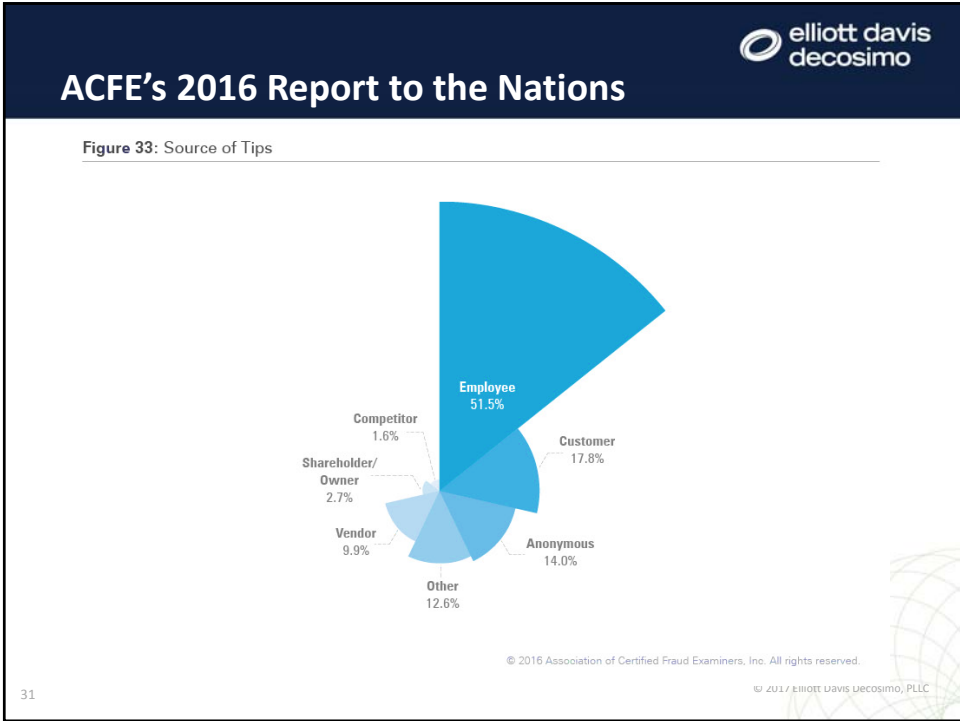


27



28





ACFE's 2016 Report to the Nations

Figure 59: Median Loss Based on Presence of Anti-Fraud Controls

Control	Percent of Cases	Control in Place	Control Not in Place	Percent Reduction
Proactive Data Monitoring/Analysis	36.7%	\$92,000	\$200,000	54.0%
Management Review	64.7%	\$100,000	\$200,000	50.0%
Hotline	60.1%	\$100,000	\$200,000	50.0%
Management Certification of Financial Statements	71.9%	\$104,000	\$205,000	49.3%
Surprise Audits	37.8%	\$100,000	\$195,000	48.7%
Dedicated Fraud Department, Function, or Team	41.2%	\$100,000	\$192,000	47.9%
Job Rotation/Mandatory Vacation	19.4%	\$89,000	\$170,000	47.6%
External Audit of Internal Controls over Financial Reporting	67.6%	\$105,000	\$200,000	47.5%
Fraud Training for Managers/Executives	51.3%	\$100,000	\$190,000	47.4%
Fraud Training for Employees	51.6%	\$100,000	\$188,000	46.8%
Formal Fraud Risk Assessments	39.3%	\$100,000	\$187,000	46.5%
Employee Support Programs	56.1%	\$100,000	\$183,000	45.4%
Anti-Fraud Policy	49.6%	\$100,000	\$175,000	42.9%
Internal Audit Department	73.7%	\$123,000	\$215,000	42.8%
Code of Conduct	81.1%	\$120,000	\$200,000	40.0%
Rewards for Whistleblowers	12.1%	\$100,000	\$163,000	38.7%
Independent Audit Committee	62.5%	\$114,000	\$180,000	36.7%
External Audit of Financial Statements	81.7%	\$150,000	\$175,000	14.3%

33

© 2017 Elliott Davis Decosimo, PLLC
© 2016 Association of Certified Fraud Examiners, Inc. All rights reserved.

ACFE's 2016 Report to the Nations

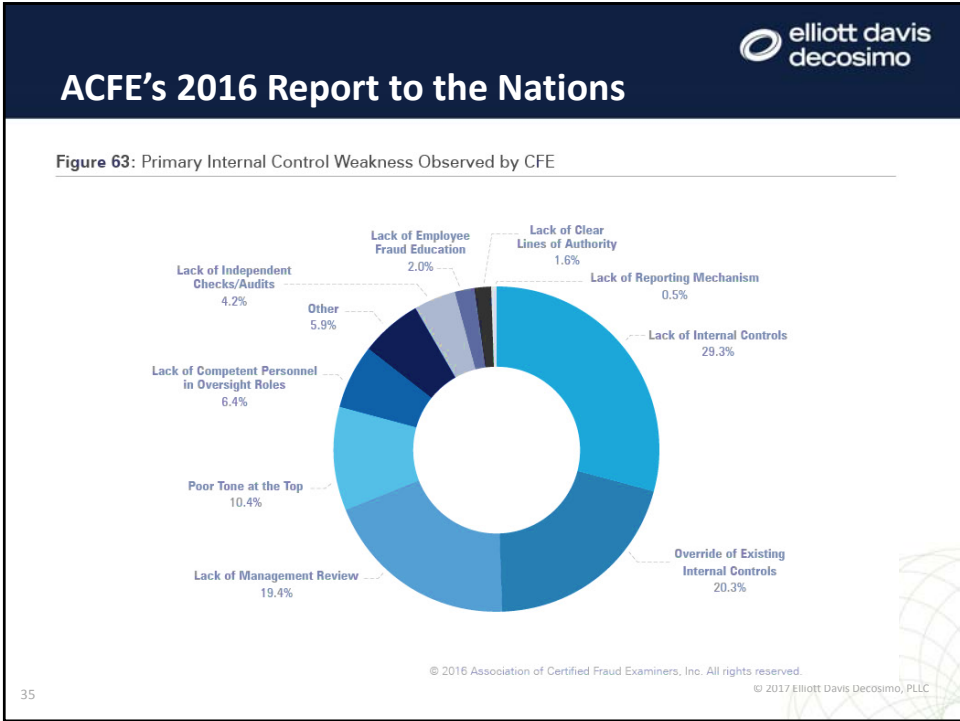
Figure 49: Change in Implementation Rates of Anti-Fraud Controls

Control	2010 Implementation Rate	2016 Implementation Rate	Change from 2010–2016
Hotline	51.2%	60.1%	8.9%
Fraud Training for Employees	44.0%	51.6%	7.6%
Anti-Fraud Policy	42.8%	49.6%	6.8%
Code of Conduct	74.8%	81.1%	6.3%
Management Review	58.8%	64.7%	5.9%
Surprise Audits	32.3%	37.8%	5.6%
Fraud Training for Managers/Executives	46.2%	51.3%	5.2%
Independent Audit Committee	58.4%	62.5%	4.1%
Management Certification of Financial Statements	67.9%	71.9%	4.0%
Rewards for Whistleblowers	8.6%	12.1%	3.5%
Job Rotation/Mandatory Vacation	16.6%	19.4%	2.8%
External Audit of Internal Controls over Financial Reporting	65.4%	67.6%	2.2%
Employee Support Programs	54.6%	56.1%	1.5%
External Audit of Financial Statements	80.9%	81.7%	0.8%

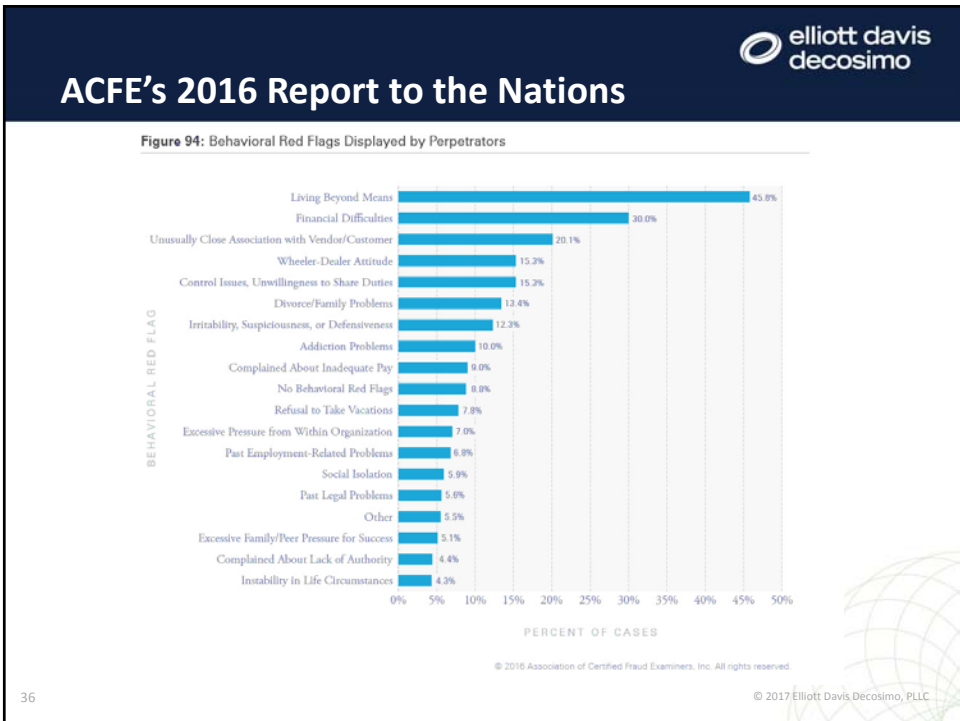
34

© 2016 Association of Certified Fraud Examiners, Inc. All rights reserved.

© 2017 Elliott Davis Decosimo, PLLC



35



36



elliott davis decosimo

Fraud Risk Management

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.

2. The organization performs comprehensive fraud risk assessments to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks.

39

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo

Fraud Risk Management

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.

3. The organization selects, develops, and deploys preventive and detective fraud control activities to mitigate the risk of fraud events occurring or not being detected in a timely manner.

40

© 2017 Elliott Davis Decosimo, PLLC

 **elliott davis decosimo**

Fraud Risk Management

Information & Communication

- 13. The organization obtains or generates and uses relevant, quality information to support the functioning of other components 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 the functioning of other components of internal control.

- 4. The organization establishes a communication process to obtain information about potential fraud and deploys a coordinated approach to investigation and corrective action to address fraud appropriately and in a timely manner.



© 2017 Elliott Davis Decosimo, PLLC


 **elliott davis decosimo**

Fraud Risk Management

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 of directors, as appropriate.

- 5. The organization selects, develops, and performs ongoing evaluations to ascertain whether each of the five principles of fraud risk management is present and functioning and communicates Fraud Risk Management Program deficiencies in a timely manner to parties responsible for taking corrective action, including senior management and the board of directors.



© 2017 Elliott Davis Decosimo, PLLC



Resources

Evaluate your Fraud Program

- <http://www.acfe.com/coso-scorecard-home.aspx>

Point of Focus	Score
MAKING AN ORGANIZATIONAL COMMITMENT TO A FRAUD RISK MANAGEMENT PROGRAM	
SUPPORTING FRAUD RISK GOVERNANCE	
ESTABLISHING A COMPREHENSIVE FRAUD RISK MANAGEMENT POLICY	
ESTABLISHING FRAUD RISK GOVERNANCE ROLES AND RESPONSIBILITIES THROUGHOUT	
DOCUMENTING THE FRAUD RISK MANAGEMENT PROGRAM	
COMMUNICATING FRAUD RISK MANAGEMENT AT ALL LEVELS OF THE ORGANIZATION	

© 2017 Elliott Davis Decosimo, PLLC

Resources

Risk Assessment Template

- <http://www.ace.com/fraudrisktools/tools.aspx>

Fraud Risk Assessment as of [DATE]										
ID Number	Identified Fraud Type and Scheme	Likelihood (1-5)	Exp of Future (1-5)	Fraud Risk Rating	People and/or Departments	Existing Anti-Fraud Controls	Prevention (1-5) or Detective (0)	Controls (1) (Prevention Assessment) (1-5)	Residual Risk	Fraud Risk Response
AM4	Fraudulent Disbursements - Check Tampering & Expense Reimbursement Schemes	5	5	25	Check tampering Accounting & Finance staff (including Treasury) Contracting Purchasing Operations manager Senior executives (e.g. Sales, Marketing, IT, Legal), General managers of remote operations, CEO, COO Expense Reimbursement All staff (especially sales personnel and management or remote locations)	Personal access controls, dual signatures on checks, support for expenses, review by supervisor and requirement that any like statement made on any expense report could be grounds for dismissal Awareness of program/employees as all levels that might drive inappropriate financial behavior as well as education, inquiry, and other activities that focus on family, family, and personal financial issues of personnel in these departments.	0	1	Medium (5 by senior mgmt) Low (0 by other employees)	Rotation of responsibilities in Accounting & Finance function, (e.g. mandatory vacations) Awareness of lifestyle and other personal issues such as divorce, stress, bereavement, and departed employees who might want to get back at the organization

© 2017 Elliott Davis Decosimo, PLLC

Resources

Risk Assessment Template

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo


Resources

Data Analytics Tests

- <http://www.acfe.com/fraudrisktools-tests.aspx>

47

© 2017 Elliott Davis Decosimo, PLLC




elliott davis decosimo

Resources

- *Using Data Analytics to Detect Possible Fraud: Tools and Techniques.*
 - Authored by Pam Mantone, Elliott Davis Decosimo
Director specializing in forensic accounting and fraud
examination
 - Published by Wiley 2013

48

© 2017 Elliott Davis Decosimo, PLLC



Case Studies and Anecdotes - 1

“The Chief was a Thief”

- Richard Fowler Jr. – Fire Chief, Farmington, New Hampshire

49

© 2017 Elliott Davis Decosimo, PLLC

The Chief was a Thief

- Background Info:
 - Hired as first full-time fire chief mid 2006; led the police and fire departments, and volunteer fire fighters
 - \$65,000 salary
 - Farmington Firefighters Relief Association (FFRA) founded in 1976 to raise funds to cover costs associated with training, certification and equipment (Fowler was an active member)
 - In 2006 when Fowler was hired, Farmington took over the control and funding of the fire department
 - Confessed to having a drug and gambling addiction

50

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo

The Chief was a Thief

- Drug addiction
- Gambling habit

He deserved more money for the amount of responsibility

Lack of oversight and lack of segregation of duties

51 © 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo


The Chief was a Thief

```
graph TD; A1[Town ambulance responds with no hospital paramedic] --> B1[COMSTAR (town contractor) bills patient or insurance]; B1 --> C1[Remits funds (less 7 percent fee) to town of Farmington]; C1 --> D1[Checks deposited into town bank account]; A2[Town ambulance responds with hospital paramedic] --> B2[Hospital bills patient or insurance]; B2 --> C2[Remits funds (per patient) to town of Farmington]; C2 --> D2[Checks deposited into Firemen's Relief Association bank account];
```

Per town agreement

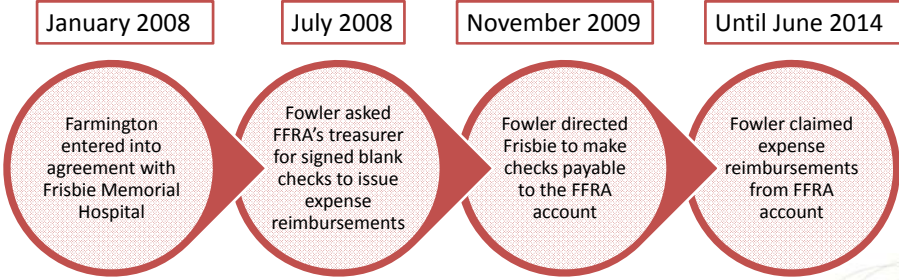
In practice

52 © 2017 Elliott Davis Decosimo, PLLC

 **elliott davis decosimo**

The Chief was a Thief

- How did he do it?



The diagram consists of four red circular nodes connected by arrows pointing from left to right. Each node is positioned below a date in a red-bordered box. The nodes contain the following text:

- January 2008**: Farmington entered into agreement with Frisbie Memorial Hospital
- July 2008**: Fowler asked FFRA's treasurer for signed blank checks to issue expense reimbursements
- November 2009**: Fowler directed Frisbie to make checks payable to the FFRA account
- Until June 2014**: Fowler claimed expense reimbursements from FFRA account

53 © 2017 Elliott Davis Decosimo, PLLC

 **elliott davis decosimo**

The Chief was a Thief

- How did he get away with it?
 - Poor (or altogether nonexistent) segregation of duties allowed Fowler complete control over FFRA and Farmington finances
 - Fowler made bank deposits without second signature or authorization
 - Fowler had access to signed check stock
 - Access to FFRA bank accounts
 - Lack of management review of operational and financial performance

54 © 2017 Elliott Davis Decosimo, PLLC

The Chief was a Thief

- How was he caught?
 - Mid-2014 Fowler left Farmington to work for a larger fire department
 - Deputy fire chief discovered financial discrepancies when attempting to reconcile the financial records
 - Town chief of police and deputy fire chief met with county criminal prosecutor in July 2014

55

© 2017 Elliott Davis Decosimo, PLLC

The Chief was a Thief

- What was the fall-out?
 - Fowler pled guilty to the theft of approximately \$270,000
 - Sentenced to three to six years in state prison and \$216,000 in restitution

56

© 2017 Elliott Davis Decosimo, PLLC

Case Studies and Anecdotes – 2

elliott davis decosimo

“When Major League Money Meets Little League Controls”

- Kansas University – athletic ticket scam
- Losses of up to \$3 million during 2005 through 2010
- Involved collusion of high ranking employees

57

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls

elliott davis decosimo

Policy permits:

- Employees get two complimentary tickets per event. No resale permitted
- Complimentary tickets to potential donors
- Tickets for Charitable Organizations

What actually happened:

- Received more than two, resale encouraged
- Officials used many more than “reasonably” needed
- Improperly used or resold tickets intended for charity

58

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls



- How did they do it?
 - Theft was concealed by charging tickets to fictitious accounts such as “Rodney Jones Donor Discretionary”
 - Destroyed tickets records

59

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls



What Controls Could Have Prevented This?

60

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls



- Internal control concerns:
 - Lack of oversight:
 - “Controls are only as effective as the people who use them.”
 - Independent oversight needed to maintain effectiveness of controls
 - Lack of transparency:
 - Disclosures and reporting of athletic data should come from central financial administrations
 - Should be provided via internet to promote openness and transparency
 - Safeguarding employee tickets

61

© 2017 Elliott Davis Decosimo, PLLC

When Major League Money Meets Little League Controls



- The Fall Out
 - Seven employees indicted including three assistant athletic directors
 - Combined restitution totals \$7,113,840
 - Combined prison time 20 years 3 months
 - Athletic Director forced into retirement; replacement hired at 10% of his salary

62

© 2017 Elliott Davis Decosimo, PLLC

Case Studies and Anecdotes – 3

“Georgetown Embezzlement”

- Georgetown University – Pedro Paulo dos Santos, Associate Director and Program Coordinator of the University’s Brazilian Studies Program
- Losses of \$311,000 from 2001 through 2005

63


© 2017 Elliott Davis Decosimo, PLLC

Georgetown University Embezzlement

- What did he do?
 - dos Santos set up a fictitious consultant using the credentials of a former lecturer
 - He filled out 118 fraudulent expense vouchers for consulting services from this fictitious lecturer
 - He endorsed the checks using the name of the fictitious vendor
 - The funds were deposited into dos Santos’ personal account, and the accounts of relatives


64

© 2017 Elliott Davis Decosimo, PLLC


 **elliott davis
decosimo**

Georgetown Embezzlement

- How was he caught?
 - The bank notified the University that dos Santos was depositing the checks into his account
 - Internal audit investigation uncovered the full crime.




65 © 2017 Elliott Davis Decosimo, PLLC

 **elliott davis
decosimo**

Georgetown Embezzlement

- What was the fall-out?
 - dos Santos admitted to embezzling \$311,000 from October 2001 through January 2005
 - Charged with 10 counts of bank fraud, mail fraud, money laundering and theft
 - After being confronted by the auditors dos Santos fled the Country.
 - Faces a total of 30 years in prison and \$1,000,000 if he is extradited to the US



66 © 2017 Elliott Davis Decosimo, PLLC

Take Aways and Lessons Learned

- Importance of anti-fraud controls at every organization!
 - From ACFE's Report to the Nations, how are most frauds discovered?
 - Employee tips
 - Management review
 - Internal audit
 - By accident
 - What about external financial statement audits?

67

© 2017 Elliott Davis Decosimo, PLLC

Take Away's and Lessons Learned

- Anti-fraud controls:
 - Formal fraud policy and annual training to all employees
 - Fraud risk assessment procedures, at least annually
 - Tip or whistleblower hotline
 - Ongoing monitoring and data analytics
 - Mandatory vacations and surprise audits
 - Regular review of segregation of duties and IT system access

68

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo

Questions and Open Discussion



69

© 2017 Elliott Davis Decosimo, PLLC

elliott davis decosimo

Rochelle Friend, CPA, CFE

Email: Rochelle.friend@elliottdavis.com

Phone: 919.783.7073

Website: www.elliottdavis.com

Elliott Davis Decosimo provides comprehensive assurance, tax and consulting solutions to diverse businesses, organizations and individuals. With a network of forward-thinking professionals in major U.S. markets and alliance resources across the globe, the firm ranks among the top 30 and fastest-growing accounting firms in the U.S. Visit elliottdavis.com for more information.



70

© 2017 Elliott Davis Decosimo, PLLC



Providing Additional Resources to Meet Your Needs



360° INSIGHTS. FOCUSED ON YOU.

Receive Important News and Alerts
Customized to Your Interests

Subscribe at www.elliottdavis.com/subscribe

© Elliott Davis Decosimo, PLLC

