

# First Friday Fraud Facts

September 4, 2009

## Share your stories

If you have a case you would like to see shared in *First Friday Fraud Facts*, please let us know.

## QUESTIONS OR COMMENTS:

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Welcome to First Friday Fraud Facts (F<sup>4</sup>). This edition will cover some of the potential warning signs of fraud as well as some of the potential ways the economic climate could contribute to additional fraud.

## BEHAVIORAL RED FLAGS AND WARNING SIGNS

In most fraud cases the perpetrator exhibits warnings signs that can potentially lead to the discovery of the fraud scheme. The most common warning sign, noted in approximately 39% of cases in a recent ACFE report, was the perpetrator living beyond their financial means. This was followed very closely by signs of financial difficulties (over 34% of cases).

The warning sign attributable to the highest median loss, approximately \$410,000, was an unusually close relationship/association with a vendor or customer. This could be because fraud schemes involving collusion, especially those with an outside party, can be very difficult to detect. Although found in more cases, the average median loss attributable to living beyond ones financial needs was significantly less at \$250,000.

Another recent study indicated that some of the most common contributing factors to fraud are pressures to do 'whatever it takes' to meet goals (81%), to seek personal gain (72%), and that the perpetrator did not consider their actions to be fraudulent (40%).

In addition, some behaviors can also be seen more commonly in certain fraud schemes. For example, in fraud cases that were examined as part of an ACFE study, an unusually close relationship with a vendor or customer is most commonly attributable to a corruption scheme; where as excessive pressures within the organization is more commonly an indicator of financial statement fraud. However, living beyond ones means was relatively equally distributed amongst



each of the three major fraud scheme classifications (financial statement fraud, corruption, and asset misappropriation).

Although these behavioral indicators have the potential alert you to fraud, waste, or abuse within your organization, It's important to note that just because these behavioral red flags are present does not necessarily mean fraud is or has occurred. These signs are merely a POTENTIAL indicator of POTENTIAL fraud.

### **THE FRAUD TRIANGLE IN AN ECONOMIC DOWNTURN**

Previous issues of F<sup>4</sup> have mentioned the Fraud Triangle; essentially three components that contribute to the perpetration of fraud. These three components are motivation, opportunity, and rationalization. In the current economic climate there are additional factors to be aware of that could impact fraud within your organization.

- Opportunity: with an increased focus on increasing revenues, efficiencies, and effectiveness there is potential to decrease the focus on internal controls.
- Motivation: facing potential layoffs and cutbacks while the cost of living stays flat or increases could cause an increased incentive to commit fraud. In addition, there is the potential for increased pressures to perform and show value within your organization.
- Rationalization: as workforces and salaries are cut back many employees are forced to do more work for less money, this can lead to a feeling of entitlement—"I deserve it" or "they owe it to me."

### **WHAT CAN YOU DO?**

Good controls to assist in the prevention and detection of fraud are the responsibility of everyone within the organization. Some basic elements of the fraud fight that all levels of staff should be aware of are:

- Ensuring a basic understanding of red flags and staying aware for the warning signs to occur.
- Understanding how your duties play a role in the internal control structure within the organization. Knowing why processes and procedures are set-up the way they are can help provide an understanding of how each step

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works to mitigate risks and protect against fraud, waste, and abuse.

- Read and understand policies and procedures within your organization and stay aware of changes or deviations.
- Report suspicions and inconsistencies that could be the result of fraud, waste, or abuse.

## **FRAUD CASE OVERVIEW**

This case outlines an alleged embezzlement of funds involving a school district business manager (NOTE: although this case does involve defrauding a government organization, it did not take place in Oregon and does not involve any Oregon Government entities).

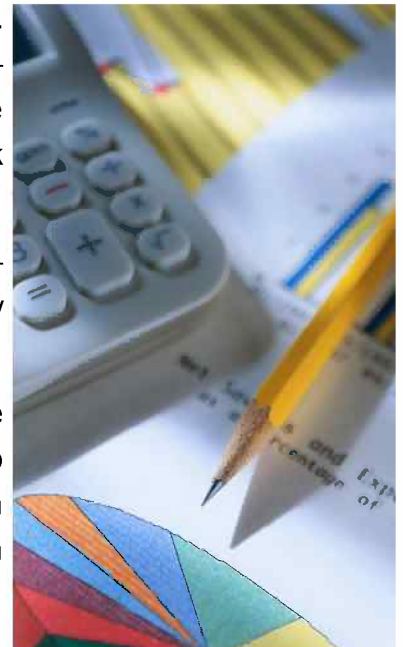
A school district superintendent noticed some discrepancies in the districts financial records and began looking closer at the records. Realizing there was potential fraud, they began working with the government auditors as well as the local police department. The initial investigation indicated an alleged embezzlement of over \$292,000 in an 11 month time period.

Auditors involved expanded the investigation to encompass over a seven year timeframe. They concluded from work completed that it appeared the school district's business manager had forged at least 538 checks. The forged checks were made payable to either the perpetrator or other parties. Allegedly the perpetrator created fraudulent balance statements to help conceal their actions. It also appears the school district did not have adequate internal controls in place; several red flags were overlooked including a lack of segregation of duties within the fiscal processes.

Ultimately, the majority of checks were deposited into the perpetrator's personal bank accounts. In just over seven years the perpetrator was allegedly able to embezzle \$3,378,701.27 from several school district bank accounts.

As a result of this information the state government involved suspended the school districts Board of Finance and took over these duties in an attempt to restore financial accountability. The perpetrator was fired from their position as business manager after the initial discovery of the missing \$292,000, a criminal investigation is pending.

This case was discovered earlier this year and is still unfolding. At this point no criminal charges have been filed, but are pending the outcome of a criminal investigation by the police and other law enforcement agencies.



## TRAINING OPPORTUNITIES

### How to Conduct an "Audit" Of Your Federal Grants Management Policies

Date: Wednesday, September 9, 2009  
Time: 11:00 a.m.—12:30 p.m.  
Location: Oregon Department of Veterans' Affairs Auditorium  
700 Summer St NE  
Salem, OR 97301  
CPE: 1.5 credit hours

This is a FREE (sponsored by the State Controller's Division) training event. This training is an audio conference style training; however as the SCD is only sponsoring one line for this event participants must attend in person at the SCD sponsored location.

#### Program Highlights:

- To differentiate federal policies that are triggered by receipt of federal grants and subgrants from those that apply because of your status as an organization or an employer.
- What specific federal grants management policy documents to use in assessing your own?
- How to hold your policies up against the proper criteria?
- How to integrate federal policy requirements with other mandates you face?
- How to devise alternative responses to federal policy mandates?
- What tools are available to identify best practices?

To Register: Please sign-up by sending an email to [SCD.Training@das.state.or.us](mailto:SCD.Training@das.state.or.us). Please include the following information:

- Title and date of training (enter in the subject line of the message)
- Attendee name
- Agency name and address
- Email address
- Telephone number

**FIRST FRIDAY FRAUD FACTS IS  
PUBLISHED BY THE STATE  
CONTROLLER'S DIVISION**

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**WHO CAN YOU CALL FOR HELP?**

The State Controller's Division reminds state agencies that it is always available to answer internal control questions. If you have an internal control problem or an audit finding and need help in resolving it, please contact:

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Officer**  
[erin.d.haney@state.or.us](mailto:erin.d.haney@state.or.us)  
**503-378-3156 x277**

**Internal control tools are on the Web!**

**[http://www.oregon.gov/DAS/SCD/internal\\_controls.shtml](http://www.oregon.gov/DAS/SCD/internal_controls.shtml)**