

A large, thick teal circle graphic that frames the text "KNOW GREATER VALUE".

**KNOW**  
**GREATER**  
**VALUE**

# Fraud Awareness, Prevention and Internal Controls

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# Fraud Awareness and Prevention and Internal Controls

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# Experience

- 30 Years experience in Forensic Accounting for government entities specializing in:
  - Identification and elimination of wasteful spending
  - Operations Efficiency reviews
  - Implementing fraud prevention and awareness programs
  - Conducting Fraud investigations and obtaining recoveries
  - Outsourced Validation of extraordinary expenditures
  - Employee interviews for tips in areas of fraud

# Fraud Awareness

- U.S. organizations lose approximately 5% of annual revenue to fraud
- Occupational frauds are more likely to be detected by a tip than any other means
- Small entities generally do a poor job of proactively detecting fraud
- Size of the loss is strongly related to the position of the perpetrator
- Corruption was the most common scheme in every global region

(Source: Association of Certified Fraud Examiners Report to the Nations)

# Types of Frauds

- Corruption
  - Conflicts of interest
  - Bribery
  - Gratuities
  - Extortion

# Types of Frauds

- Asset Misappropriation
  - Cash
    - Skimming
    - Write Offs
    - Lapping
    - Theft of Cash collections

# Types of Frauds

- Asset Misappropriation
  - Fraudulent Disbursements
    - Payroll
    - Expense Reimbursements
    - Fictitious Vendor
    - Personal Purchases

# Types of Frauds

- Asset Misappropriation
  - Equipment
    - Misuse
    - Off Site Delivery
    - Removal
    - Personal Purchases

# Types of Frauds

- Financial Statement Fraud
  - Unreported Receivables and activity
  - Unreported bank accounts and activity

# NO Show Jobs



## NO Show Jobs

- Tracey Collins- Eric Adams Partner in NYC
- 4 Jersey City cops indicted-OT Pulaski skyway detail
- 5 Edison police officers
- Founder of NYC Public defender organization
- Jersey City Case- details

# Delivery of Service and Value



## Delivery of Service and Value

- Doctor Case- medical billing for alleged service provided to County employees
- Principal – warehouse purchase and lease to Board of Education
- Finance Dept employee-City summer tennis program through Recreation Department
- Relative of elected official- new business owner training program

# Delivery of Service and Value



# Conflicts of Interest

- Personal Conflict when personal relationship or interest interferes with ability to be impartial- most typical hiring family member without disclosure of relationship
- Corporate Conflicts- undisclosed side job and projects
- Financial Conflicts- kickbacks and insider trading
- Professional Conflicts- decision benefits another entity that the member is affiliated with

## Related parties

- Related parties increase the risk of fraud
- Transparency is paramount
- Annual Disclosures
- Contract disclosures and awards
- Organization charts, disclosure of all owners and officers and even employees

## Standards of Conduct and Disclosures

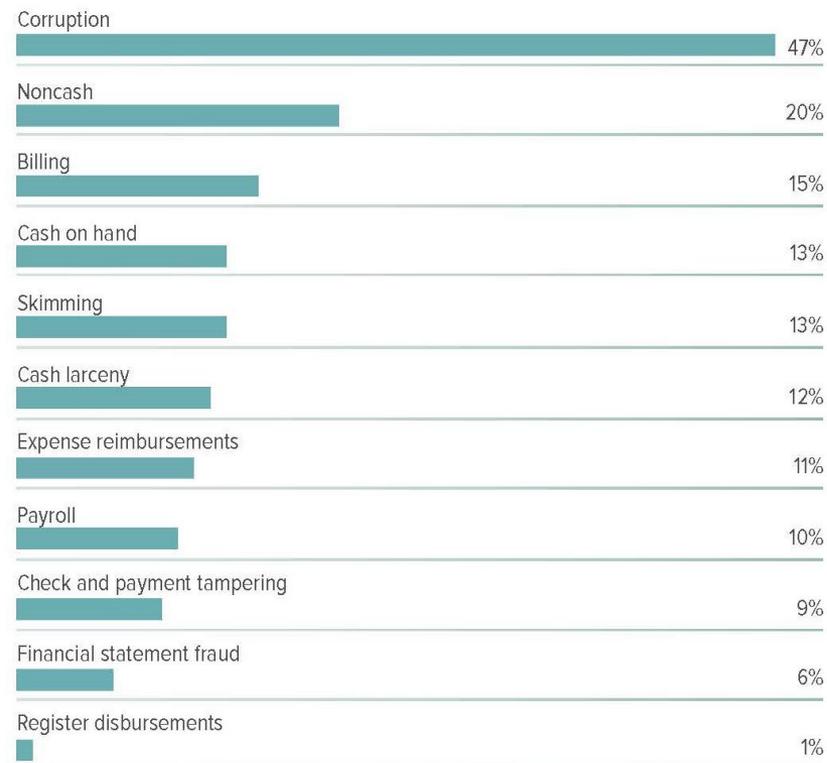
- Public Service is viewed as a public trust, requiring employees to prioritize loyalty to the Constitution, laws and ethical principles over personal gain
- No State officer or employee or special State officer or employee, shall willfully disclose to any person, whether or not for pecuniary gain, any information not generally available to members of the public which he/she receives or acquires in the course of and by reason of his/her official duties

# Standards of Conduct and Disclosures

- New Jersey Uniform Ethics Code
- Avoiding conflicts of Interest
- Promptly filing notice of business activities
- Avoid misuse of official position or information
- Maintaining public trust
- Consultation of ethical matters
- Disclosures of secondary employment and business activities

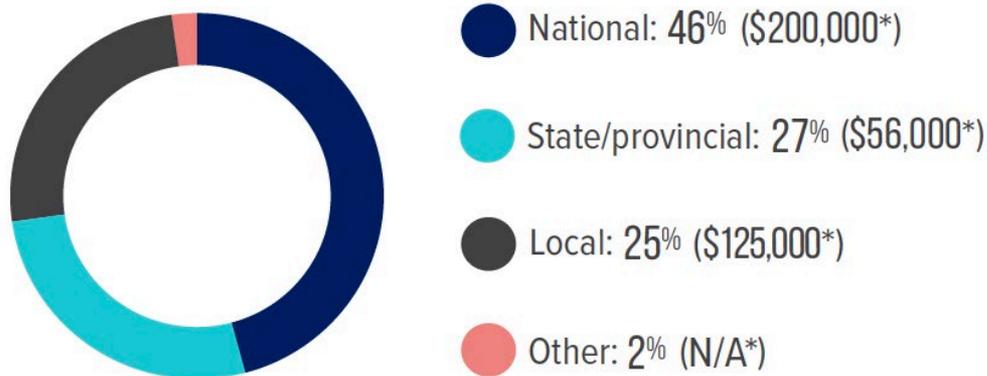
# Most Common Fraud Schemes in Government Agencies

FIG. 2 What are the most common occupational fraud schemes in government agencies?



# Levels of Fraud in Government

**FIG. 16** WHAT LEVELS OF GOVERNMENT ARE VICTIMIZED BY OCCUPATIONAL FRAUD?



*\*Dollar amounts are median loss. Median loss calculations for categories with fewer than 10 cases were omitted.*

## Municipal Frauds

- UNUSED SICK & VACATION PAY
- PARKING METERS
- VENDOR OVERBILLING
- TAX COLLECTOR



# UNUSED SICK AND VACATION PAY CASE



# UNUSED SICK AND VACATION PAY CASE

- NJ Office of the State Comptroller reported that 57 of 60 towns surveyed failed to follow capping laws on payouts of unused sick and vacation time. In the past New Jersey estimated the total is almost \$1.9 billion for public workers

# PARKING METER CASE





# VENDOR OVERBILLING





# TAX COLLECTOR



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# Shared Services Inequities





# PHYSICAL CONTROL OF EQUIPMENT





# ECONOMIC DEVELOPMENT CORP CASE





# CITY BASEBALL STADIUM



# CYBER THREATS

44% OF GLOBAL RANSOMWARE ATTACKS  
TARGETED MUNICIPALITIES

50% OF STATES DO NOT HAVE A CYBERSECURITY  
LINE ITEM BUDGET

MUNICIPAL EXCESS LIABILITY JOINT INSURANCE  
FUND REPORTED A 540% INCREASE IN CYBER  
ATTACKS ON GOVERNMENT AGENCIES SINCE  
2013

# CYBER THREATS

## VULNERABLE AREAS DUE TO

- \* VOTER RECORDS
- \* TAX INFORMATION
- \* SOCIAL SECURITY NUMBERS
- \* BANK INFORMATION
- \* BIRTH AND DEATH RECORDS
- \* BOND AND NOTE PAYMENTS

# Key Controls and Procedures-Physical Controls

- Physical security of assets
- ID tag and inventory of all assets
- Keys, combinations & passwords
- Employee access limited
- Video security cameras
- Limited access to records
- Fraud Hotline Tips
- Computer security – physical, passwords, and software
- Computer monitoring
- Computer limited access to outside environment on web and internet
- Annual analysis of needs versus results and value for each operation

# Key Controls and Procedures-Policy and Procedure Controls

- Detailed Policy and procedure manual reviewed by and signed off by each employee annually
- Segregation of Duties
- Detailed job descriptions
- Conflict of interest policy and signed disclosures
- Related party policy and signed disclosures
- Employee authorization for credit check and background check if hired
- Review of reports prepared daily, monthly, quarterly, and annually
- Review budgets versus actual review and explanations

# Key Controls and Procedures-Policies & Procedures

- Lock box for receipts
- Procedures to handle cash
- Daily deposits versus holding checks or cash
- Handling bounced checks
- Overpayments resolution and documentation
- Unused checks security
- Multiple signatures on checks
- Check run match to signed checks before issuance and copied and saved
- Independent person perform bank reconciliations
- Review outstanding checks
- Review check sequence
- Check receipts date with deposit dates
- Review all bank statements for any unusual items
- Review assessments
- Review tax bills
- Review receivables

# Key Controls and Procedures

- Exception reports for overtime or special payroll
- Tracking of used and unused sick and vacation time and pay
- Monthly and annual report of unused sick and vacation by department by employee and approval and signature each year by employee and supervisor and copy to finance/ HR
- Review termination of all benefits for terminated employees
- Review termination of payroll payments on employee termination
- Review employee report by name for relatives
- Review employee report by address for same address
- Run comparison of employee address to vendor addresses to determine if employee running business as employee
- Dependency check and verify for health benefits
- Cross training
- Use of hand readers and remote check in via technology
- Perform payroll payout/ visit each employee by surprise at least annually

# Additional procedures and controls

- Workers compensation review to eliminate potential double charges and overcharges by brokers collecting fees for services from municipality and commissions where referred
- Evaluate workers comp and health coverage to mandate use of in City Hospital facilities to negotiate substantially lower prices and help City Hospitals
- Establish Inspector General office to perform background checks on vendors etc. and compliance with policies

## Additional Procedures and controls

- Institute a Contract Administrator to oversee all City contracts and ensure that the City receives VALUE from all work and services provided
- Institute conflict of interest policy signed annually
- Institute related party disclosures policy signed annually
- Use hand reader system for work time tracking

# Additional Procedures and controls

- Revamp system for tracking and approval of all overtime, sick and vacation and review monthly reports and obtain support and approvals for all depts. and by employee
- Perform Forensic audit of parking authority operations.
- Evaluate garbage contracts for pick up and City vs. outsourcing various wards
- Evaluate internal audits reports and savings produced if any for the function
- Evaluate various departments and detailed job descriptions to justify or not each position held

# Additional Procedures and controls

- Evaluate overtime cost and analyze to determine ways to eliminate OT
- Review personnel to identify ghost employees being paid with no observable function or benefit to the City
- Revamp compliance with contract provisions for vendor submission of financial viability( financial statements) for all work and insurance and prevailing wages
- Review all City leases and areas for savings and renegotiation

# Additional Procedures and controls

- Evaluate operations of City and Board of Education for savings available by sharing services and possibly outsourcing services that are shared (e.g. Parks and grounds, snow plowing, leaf and lawn maintenance, building maintenance, etc.)
- Evaluate snow plowing costs and systems to minimize standby costs and obtain better rates on hourly snow plow charges (Experienced that vendors collaborate to push up prices)
- Evaluate the Water and Sewer departments and specifically inventory of pipes and valves and controls over pilferage
- Have testing performed for leakage in water and sewer systems



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