

Fraud and Control in the new normal

League of Municipalities 2021 Mini-Conference

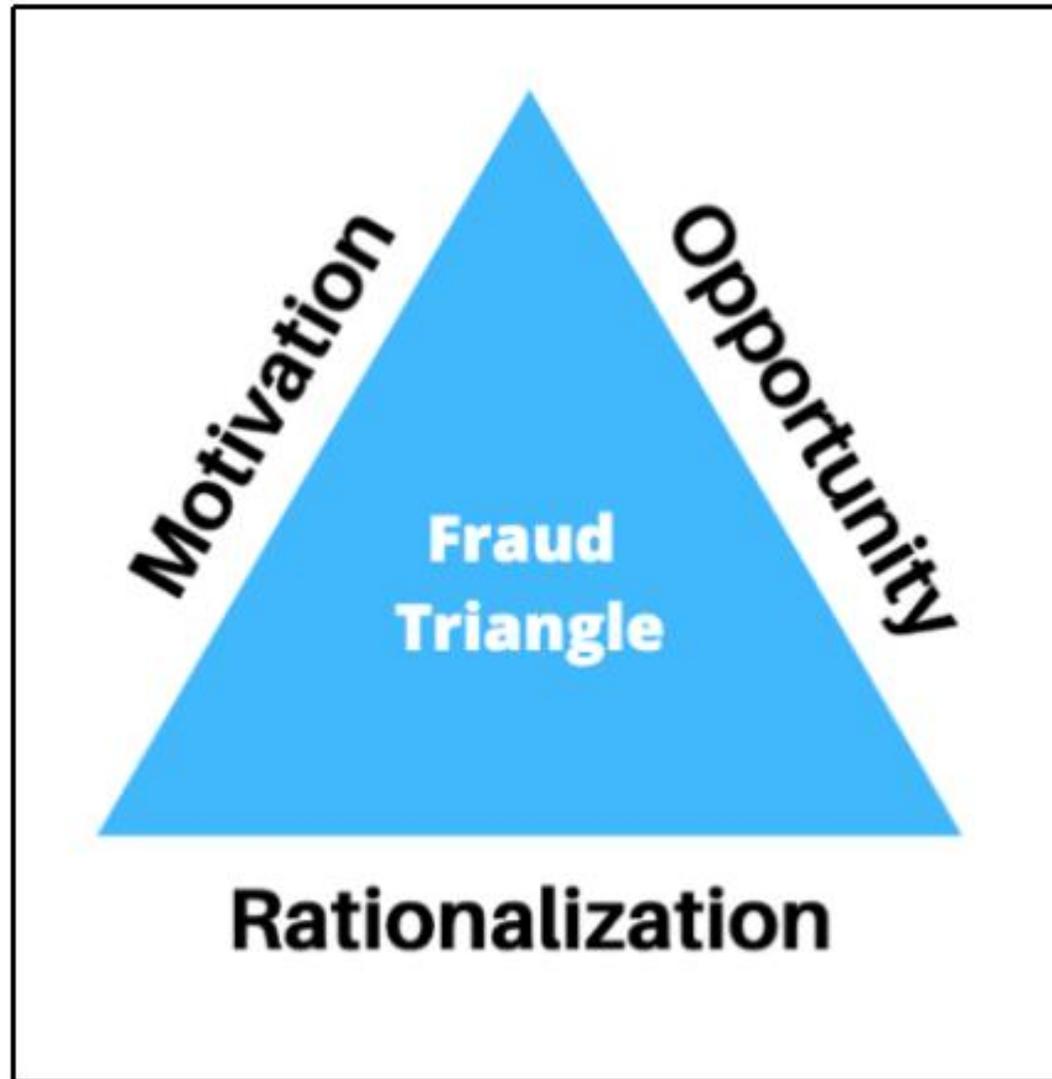
What is the “new normal?”

- Advances in technology
- Cloud storage and access
 - Remote workplace
 - Paperless processes
- Cyber-Crime
- Prompt Payment pressure – vendor signatures on PO's?
- Staffing concerns
 - Limited budgets = limited staffing
 - Staff retention, millennials vs boomers
 - Professional Advancement and Education = CHANGE

That's the way we've always done it

- Understanding why – important to any process
- Filling rooms with paper – inefficient and NOT transparent
 - Records Inventory Management Systems
 - Sharing documents and data to all relevant people
 - More people with more information = less mistakes or more corrections
- Physical signatures as “checks and balances”
 - Sometimes as effective as a stone and chisel
 - Who approves and why?
- Paper checks and paper purchase orders – why?
 - Inefficient paper, risk exists with or without paper

Fraud - Intentional deception for personal gain



Fraud Motivation (Incentive or Pressure)

- High personal debt, living beyond one's means
- Peer pressure – who has a bigger boat?
- Vices - gambling or drug problems
- Relationships – divorce or affairs
- Strong desire to beat the system
- Greed

Fraud Opportunity

- Poor tone at the top
- Weak or non-existent Internal Controls
 - Lack of review or supervision
 - No segregation of duties
 - Access to resources of value
- Inadequate or misunderstood Accounting policies and procedures
- Worker sees a clear course of action to solve his/her financial need with a perceived limited risk of being caught

Fraud Rationalization (Justification)

- Pay not commensurate with duties – under paid
- Lack of job satisfaction – overwhelmed and nobody cares
- Unethical environment – supervisor and/or peers
- Poor management
- Bad work environment
 - I hate my job
 - I hate my peers
 - They treat me poorly
- Belief that I will not be caught or believe there is no other solution to one's problems – I must do this to solve my financial problems

What is Internal Control?

- Processes designed to provide reasonable assurance regarding
 - Effective and efficient operations
 - Reliable financial statements
 - Compliance with laws and regulations

Effective and efficient operations includes performance measures that impact each year's budget as well as safeguarding resources (preventing theft)

Internal Control Components

- Control Environment – Tone at the top, ethics, management philosophy and operating style
- Risk Assessment – What can go wrong? Where do we have weaknesses? Will mistakes be caught and corrected?
- Control Activities – Policies and procedures, separation of incompatible duties, approval and review, reconciliations, physical safeguards
- Information and Communication – Timely, relevant and useful data
- Monitoring – Do employees understand their role? Are policies and procedures followed? Training is critical to success.