



DM DANNIBLE & MCKEE, LLP
Certified Public Accountants and Consultants



Small Business, Big Thieves

Preventing Fraud in Your Organization

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Big Thieves



Concealing Fraud

TOP 8 CONCEALMENT METHODS USED BY FRAUDSTERS



Created fraudulent physical documents



Altered physical documents



Created fraudulent transactions in the accounting system



Altered transactions in the accounting system



Altered electronic documents or files



Destroyed physical documents

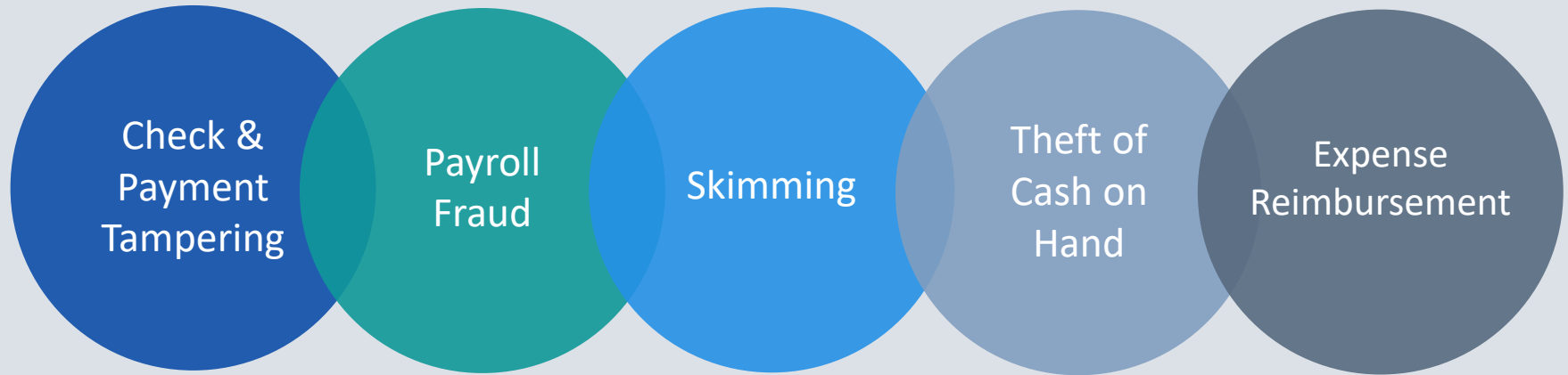


Created fraudulent electronic documents or files



Created fraudulent journal entries

Common Fraud Schemes



Payroll Fraud

Theft of cash from a business via the payroll system.

HOW?

- False expense reports
- Ghost employees
- Advances not paid back
- Unauthorized modification of records
- Overriding or inadequate controls



Payroll Fraud in the News

Staff coordinator (\$31,000)

- Theft occurred between April 2012 and October 2014
- Employee for ten years – described as “charismatic” and “outgoing”
- Submitted fraudulent time cards
- One of two employees responsible for matching time sheets to hours worked, including her own
- Perpetrator would double check the figures and would slip in claims for extra shifts and inflated hours
 - Falsified a total of 2,611.5 hours
- Upper management noticed money was missing

How could this have been prevented?

Preventing Payroll Fraud



Tips & safeguards to prevent payroll fraud:

- Electronic timesheets
- Supervisor approval
- Separation of duties
- Review and analytical
- Reconciliation
- Owner review of payroll reports



Skimming

Theft of cash before it has been recorded on the books.

HOW?

- Short-term skimming
- Unrecorded/Understated sales
- False discounts
- Theft of incoming checks





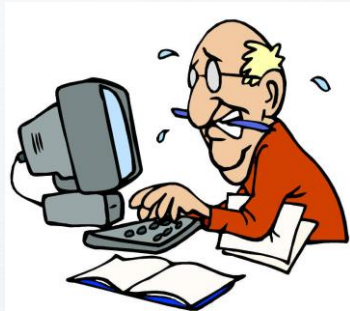
Skimming in the News

City senior account clerk typist in finance office (\$11,000)

- Over a three month period stole fees for parking permits, code enforcement, water, sewer and parking summons
 - 11 building permits - \$1,200
 - 18 parking permits - \$1,800
 - 213 parking tickets - \$5,000
- Pocketed cash without recording all of the transactions
- Finance director noticed some discrepancies with transactions when employee was out on leave

How could this have been prevented?

Preventing Skimming



Tips & safeguards to prevent skimming:

- Minimize cash transactions
- Daily bank deposits
- Review irregular write-offs
- Separation of Duties
- Reconciliation of physical inventory
- Mandatory receipts for all transactions, including cash
- Mandatory vacation

Theft of Cash on Hand

Theft of cash that has already been recorded on the company's books.

HOW?

- Theft of cash from a register
- Reversal of cash transactions
- Altering cash records



Theft of Cash on Hand in the News

YMCA Coordinator (\$40,000)

- Theft occurred from September 2007 to October 2008
- In charge of coordinating the receipt of money from families from youngsters' participation in after-school and day-care programs run through the YMCA at various locations
- Also responsible for sending out notices if families fell behind in payments
- Discovered when someone had a question about his family's payments and a YMCA assistant went to the computer to check information because coordinator wasn't at work at the time. The computer showed no payments but the person insisted they had been made.

How could this have been prevented?

Preventing Theft of Cash on Hand



Tips & safeguards to protect cash on hand:

- Segregation of duties
- Management approval for returns
- Cash reconciliation
- Accounts receivable reconciliation
- One employee per register
- Daily cash deposits

Expense Reimbursement Fraud

Claiming reimbursement for fictitious or inflated expenses

HOW ?

- Forged receipts
- Double reporting expenses
- Overstated expenses
- Mischaracterized expense reimbursements



Expense Reimbursement Fraud in the News

VP of Syracuse Construction Company (\$266,000)

- Employee for many years
- Employees were complaining about VP and stated that he was only working a couple of days a week, construction jobs often lost money and was not bringing in any new work. Company executives began looking into records.
- Several large purchases of diesel fuel (200 gallons at a time), delivered every two to three months over 10 years to residence
- Fake credit card receipts generated on a company-provided computer used in expense reimbursement reports as well as several orders for home improvement materials not related to business.

How could this have been prevented?

Preventing Expense Reimbursement Fraud



Tips & safeguards to prevent and detect expense reimbursement fraud:

- Expense reimbursement policy
- Tone at the top
- Require receipts
- Examine receipts to ensure authenticity
- Review process for employee expense reports

Check and Payment Tampering

Employee steals, alters or forges a check that is payable from the employer's business account.

HOW ?

- Altered Checks
- Altered ACH
- Forged Checks
- Concealed Checks
- Authorized Maker





Check and Payment Tampering in the News

CNY SPCA Director (\$700,000)

- Theft occurred from 2011 to 2017
- Checks written to themselves “performance bonuses” and deposited into personal accounts
- Blank checks were signed by the board chair (83 of 132 checks to Director)
- Monies were used to finance gambling problem and trips
- Agencies treasurer identified financial inconsistencies

How could this have been prevented?

Preventing Check and Payment Tampering



Tips & safeguards to protect against tampering fraud:

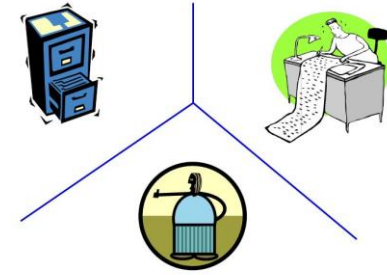
- Maintain checks under lock and key
- Review of online checks clearing
- Review and reconciliation of accounts
- Limit access
- Investigate out-of-sequence checks
- Separation of duties

Internal Controls

Ways to combat the lack of segregation within a Small Business' Accounting Function:

- Written Code of Ethics
- Educating and Training employees to prevent fraud
- Segregation of duties
- Maintaining reasonable expectations
- Performing regular bank reconciliations
- Set a good example from the top, finance committee
- Hire an outside financial professional to examine the books
- Institute a fraud hotline

Segregation of Duties



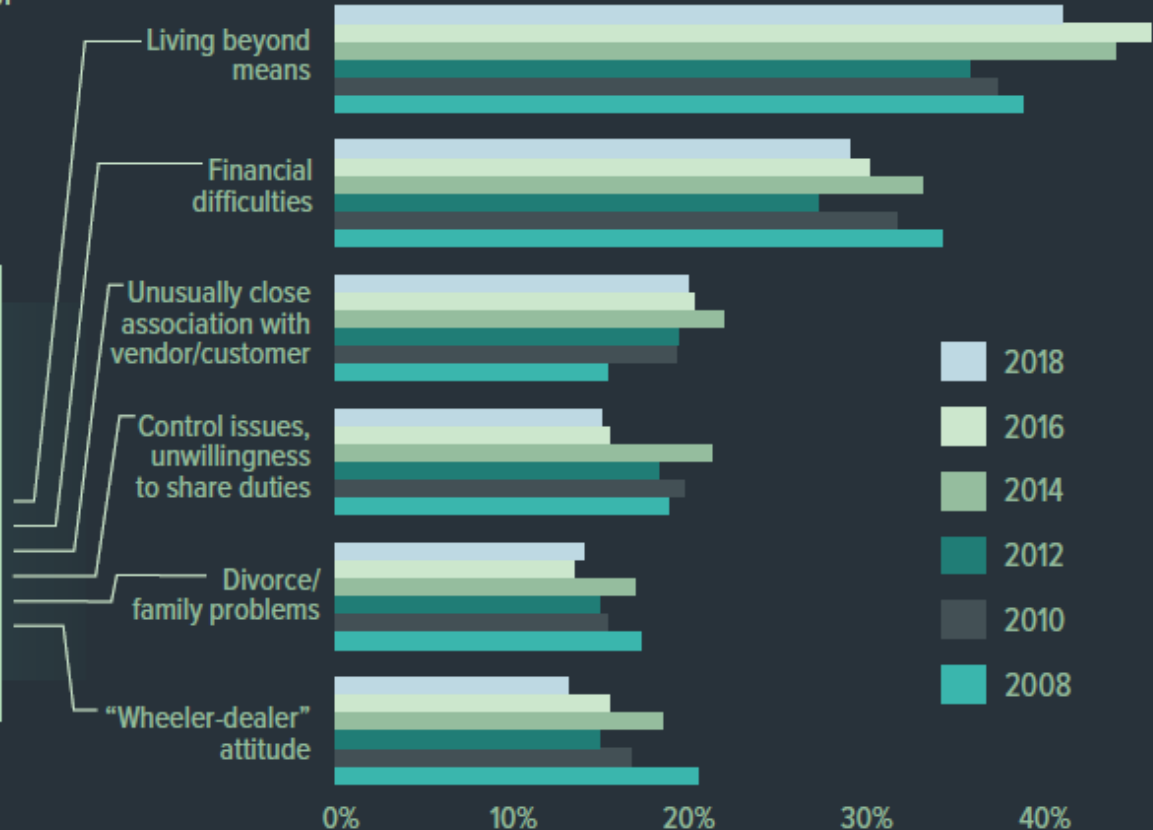
... Behavioral Red Flags

IN
85%
OF CASES FRAUDSTERS DISPLAYED AT LEAST
ONE BEHAVIORAL RED FLAG

AND IN
50%
OF CASES THEY EXHIBITED
MULTIPLE RED FLAGS

These **6 BEHAVIORAL RED FLAGS**

have been the most common in
every one of our studies dating
back to 2008, with a remarkably
consistent distribution



What to do if you suspect fraud has occurred?

- Call your accountant, attorney or certified fraud examiner to assist you in this process
- Obtain as much information as possible before anyone is questioned
- Alert proper authority of the findings and/or allegations
- Document all observations and actions
- Maintain confidentiality



Questions





*Thank you to all our clients, colleagues and friends for
your support over the last forty years!*

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