



GARY ZEUNE & ASSOCIATES

Training, Writing and Consulting in:
Fraud and Audit Failures
Leadership: Skills and Strategies
Productivity Performance Measures

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www.TheProsAndTheCons.com

Fraud and Abuse in Government and Non-profits





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TRAINING AND CONSULTING

Using 35 years of experience in auditing, corporate finance, and investment banking, Gary D. Zeune, CPA, provides CPAs, attorneys and executives with hands-on experience in fraud and corporate strategy performance improvement. Mr. Zeune instructs courses for:

- ❑ FBI National Training Academy
- ❑ Office of the U.S. Attorney
- ❑ The SEC Institute
- ❑ National Association of Securities Dealers
- ❑ North American Securities Administrators Association
- ❑ American Society for Industrial Security
- ❑ Over 35 state CPA societies and bar associations
- ❑ American Institute of CPAs
- ❑ American Management Association
- ❑ Institute of Management Accountants
- ❑ Entrepreneurship Institute
- ❑ Treasury Management Association
- ❑ Private classes for numerous companies and accounting firms.

Mr. Zeune has instructed Strategy Formulation and Implementation in the Executive MBA Program and Accounting and Honors Finance at The Ohio State University. He is also a member of the Education Executive Council and is past chairman of the Education Marketing and Public Relations Committees of The Ohio Society of CPAs. His other memberships include: the American Institute of CPAs, and the Regulation of Public Offerings Committee of the Ohio Division of Securities.

Prior to forming his consulting practice in 1986, Mr. Zeune was an Assistant Vice President of Corporate Finance at The Ohio Company, a Columbus, Ohio investment banking firm. He also spent more than five years in Treasury and Finance at Wendy's International, where he was responsible for mergers and acquisitions, financial and SEC reporting, and corporate finance. He was on the audit staff of Ernst & Ernst from 1973 to 1977; and taught accounting at Ohio University from 1970 to 1973, where he received his bachelors in mathematics and masters in accounting, with honors.

ARTICLES AND BOOKS

Mr. Zeune is also widely published. He has published more than 40 professional articles and is the author of *The CEO's Complete Guide to Committing Fraud* and *Outside the Box Performance*. He has been a member of the Editorial Advisory Boards of the *Journal of Working Capital Management* and *The Ohio CPA Journal*.

For Deloitte & Touche, he authored *Financing Business Growth* and has completed the first draft of *The Complete Guide to Buying or Selling a Closely Held Business*, two books in the firm's Entrepreneurial Series. He has authored chapters for two books published by Warren Gorham Lamont, the world's largest financial publisher: *Accessing the Capital Markets* and *Options for Raising Capital*.

WHITE COLLAR CRIMINALS

Mr. Zeune has the ONLY speaker's bureau in the country specializing in white-collar criminals — The Pros & The Cons. Mr. Zeune's speakers tell their stories of how and they committed their crimes. Their frauds range from \$18,000 to \$350 million. Speakers include CPAs, attorneys, and business people. The frauds include:

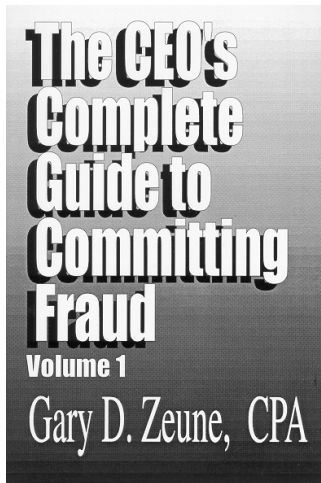
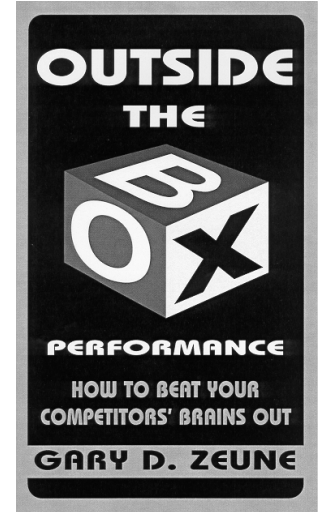
- ❑ Mark Morze created 10,000 phony documents to steal \$100 million in the infamous ZZZZ Best Carpet Cleaning fraud (86% of the revenue was fake and no one found it)
- ❑ Fred Shapiro defrauded nearly every major financial institution in the City of Philadelphia to the tune of \$8.6M. He is a former attorney, accountant, educator and inmate. Fred worked undercover with the U.S. attorney's office and the FBI in a drug and money laundering operation in an effort to minimize his sentence.
- ❑ Nick Wallace committed a \$350 million fraud as the President of ESM Government Securities resulting in the collapse of the Ohio Saving & Loan Guarantee Fund, and the bankruptcy of 69 Ohio S&Ls
- ❑ Dunlap Cannon was the largest real estate closing attorney in Memphis. He went to prison for 32 months for stealing \$5 million from his clients.
- ❑ Suffering from medical expenses and family deaths, bookkeeper Teri Lynn Norwood stole \$18,000, promising to pay it back. She ran out of time.

100% No-Risk Guarantee

Mr. Zeune's executive education training is consistently rated at least a 4.7 on a 5-point scale. If you are not satisfied for any reason, if you don't learn at least 10 new things you can use the following day, there are no fees or expenses. PERIOD.

Want More Info? Order the Book!

Outside the Box Performance: How to Beat Your Competitors' Brains Out is packed with the techniques small and mid-size world-class companies use to become and stay competitive, and make a ton of money. Learn the secrets to unlock the multitude of new techniques which "drive" your profitability. This book compliments the class and provides new ideas to incorporate in your business. For example, do you know what the basis of competition will be in the next 10 years? It's around you ALL the time. You expect it everyday as a customer. Or, how to beat your competitors by asking your customers two simple questions? If not, sit back and learn how to "beat your competitors' brains out!"



Don't you want to know how Barry Minkow and Mark Morze stole \$100 million from investors in the ZZZZ Best Carpet Cleaning fraud, right under the noses of auditors, underwriters and lawyers? The first chapter of 100 pages in *The CEO's Complete Guide to Committing Fraud* tells you. It also has 8 chapters on other frauds: computer, real estate, fake financial statements, public company frauds, and a chapter by an auditor who became the target of a fraud investigation, just 4 weeks after becoming the engagement partner.

Risk-Free Lifetime Guarantee: Gary Zeune's books are fully guaranteed. If they **ever** fail to meet your expectations, even after you've written in them, marked them up, torn pages out, return for a full refund.

I need the following copies of Mr. Zeune's books. Price: 1 @ \$19.95: 2 to 5 @ \$15.95 6+ @ \$12.95

_____ *The CEO's Complete Guide to Committing Fraud* (300 pages)
 _____ *Outside the Box Performance* (200 pages)

_____ Number of books ordered

1 @ \$19.95

2 - 5 @ \$15.95 each

6+ @ \$12.95 each

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Total _____

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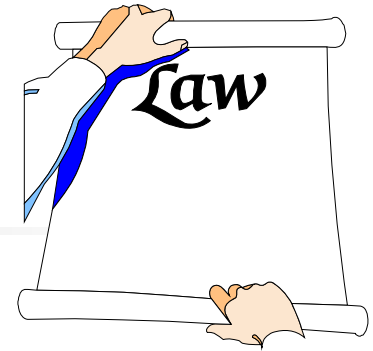
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Required Legal Stuff



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1. "Just wanted to let you know that I appreciate being on your distribution list. I have found that there are many items that you refer to me that are helpful."

. . .Mike McGlynn





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downloaded, edited or saved on your computer.



Ben Wright, Esq.



1. The Law of Fraud
2. Document Destruction and Retention
3. Private Securities Litigation Reform Act
4. Altering or destroying workpapers is a

5. If workpapers are incomplete can't issue an





Dunlap Cannon

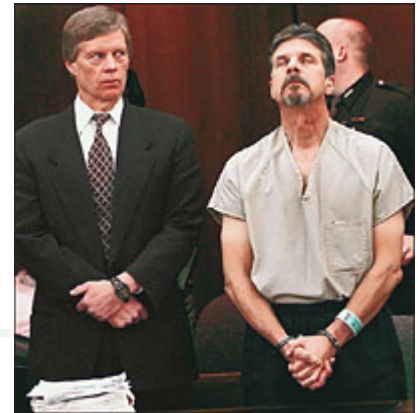


1. Real estate attorney
2. \$1 million income
3. Father
4. Life style issues
5. Bank accounts
6. Fraud lesson _____



Jesse Oddi

1. Clerk of Courts
2. Financial stress
3. \$450,000 embezzlement
4. 5+ years
5. NM Municipal League
6. Fraud lesson _____





SAS 99

Mark Morze



1. Pepperdine University
2. Toastmaster Speaking Champion
3. Fraud: Ex-Con Tells All Part II
4. CFO, ZZZZ Best Carpet Cleaning
5. 10,000 phony documents
6. \$50 million of revenue, 86% was _____
7. "If you were my auditor,

Embezzlement

Walt Pavlo



1. Mid-level manager at MCI
2. \$6 million embezzlement
3. KPMG
4. Association of Certified Fraud Examiners
5. CNBC
6. Fraud lesson _____

Corporate Identity Theft

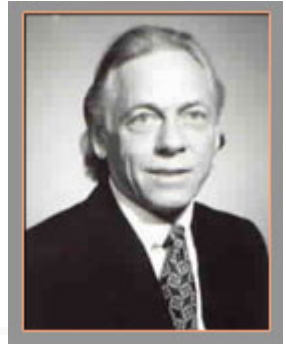
John Kammin and Judy Collins

1. Professional identity thief
2. Assists law enforcement
3. Trains banks how to protect themselves
4. Professor of Criminal Justice
5. Trains law enforcement
6. 3 books
7. ID theft victim
8. Fraud lesson _____

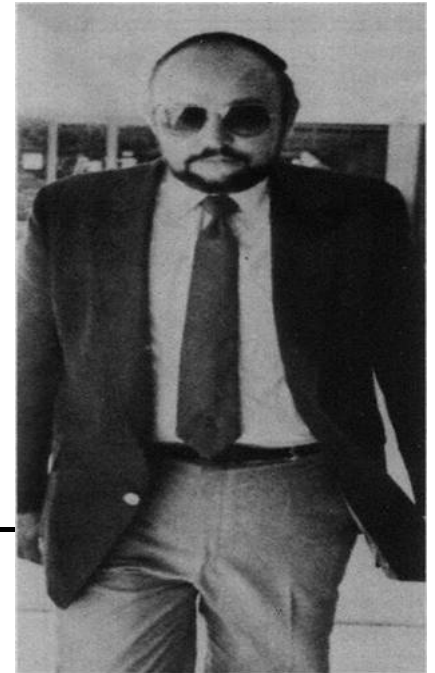


Financial Reporting Fraud

Nick Wallace



1. President ESM Government Securities
2. \$350 million fraud
3. Bankrupted 69 S&Ls
4. 2 suicides
5. Wallace serves 6½ years
6. Gomez goes to prison
7. Fraud lesson _____



Jose Gomez, Partner
Alexander Grant
A&A South Florida

Embezzlement

TeriLyn Norwood



1. Accounts payable supervisor
2. \$18,000 embezzlement
3. Financial stress
4. Profiled in WSJ
5. Montel Williams Show
6. Fraud lesson _____



Bank Fraud

Dave London



1. Bank president
2. Gambling
3. Embezzlement
4. CFO figured it out
5. 33 months
6. Fraud lesson: If you're doing something wrong and someone figures it out you don't _____

Barry Minkow

1. CEO ZZZZ Best
2. Senior Pastor
3. Fraud Discovery Institute
4. Fee _____

CBS NEWS
August 22, 2005 11:02pm ET ▶ The Early Show ▶ CBS Evening News ▶ 48 Hours

60 MINUTES • Section Front
E-mail This Story Printable Version

It Takes One To Know One

(Page 1 of 2)
May 22, 2005

FREE VIDEO
 [Teaching About Fraud](#)



Barry Minkow, a former con artist who now exposes scams, takes 60 Minutes' hidden cameras on an investigation. (Photo: CBS)

(CBS) If you were going to start a Hall of Fame for con men, Barry Minkow would have to be one of the first inductees. He was one of the most famous stock swindlers of the '80s, and certainly the youngest. At 20, he was the boy wonder of Wall Street, and CEO of a \$300 million company. At 22, he had been convicted of 57 counts of fraud, and was off to federal prison.

Now 39, Minkow is back in the spotlight, not for committing fraud, but for exposing it. He says he is seeking redemption by going undercover to help federal law enforcement agencies crack a number of important cases, proving that when it comes to con men, it takes one to know one. [Correspondent Steve Kroft](#) reports.

 CBSNEWS.COM



Profiled in.....



1. WSJ
2. NYT
3. CFO
4. Sunday Herald (Canada)
5. Miami Herald
6. National Post (Canada)
7. Business First
8. San Antonio Express

1. Washington Post
2. Report on Fraud (Kroll Int'l)
3. Risk Management Journal
4. Spirit
5. Houston Chronicle
6. Baltimore Sun
7. Forbes
8. Denver Post

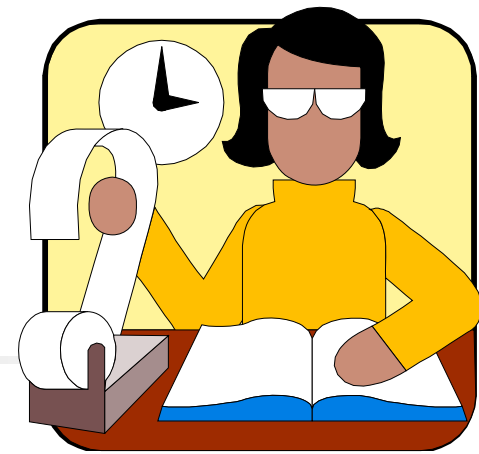


In-House Training

1. SEC
 2. Dept of Justice
 3. FBI
 4. Federal Reserve Bank
 5. National Association of Securities Dealers
 6. Old Republic Title Company
 7. National Lease
 8. Southern Gas Association
1. Retail Industry Leaders Assn
 2. Young Presidents Organization
 3. National City Bank
 4. National Rural Electric Coop
 5. SAS Institute Inc.
 6. American Corporate Counsel
 7. Am Society of Industrial Security



In-House Training CPA Firms



1. Mellott & Mellott
2. Yeo & Yeo, P.C.
3. Scott + McElveen
4. Bowman & Company
5. Grant Thornton
6. KPMG Peat Marwick
7. Berry Dunn McNeil & Parker
8. Olsen, Thielen & Co.
9. Packer, Thomas & Co.

1. Hahn Loeser & Parks
2. Cindrich, Mahalak & Co.
3. The Morehouse Firm
4. Boulay, Heutmaker, Zibell
5. Suby VonHaden & Associates
6. Blackman & Sloop, CPAs
7. Deloitte & Touche
8. Rea + Associates
9. Summers Spencer & Callison, CPAs



Today's Agenda

1. How much fraud and abuse, and where
2. The BIG picture
3. Are you protected
4. Triangle of fraud
5. What is fraud
6. Legal aspects of fraud
7. Nonprofit fraud and abuse
8. Government fraud and abuse
9. What juries think of accountants



**2004 REPORT TO THE NATION
ON OCCUPATIONAL FRAUD AND ABUSE**

www.CFEnet.com

800-245-3321



How Much Fraud is There

1. Association of Certified Fraud Examiners

1. \$660 Billion
2. 6% of revenue
3. \$9 per day per employee
4. \$4,500 per employee

2. E&Y

1. 20% of employees know of fraud and abuse
2. 48% of employees think employers can do more



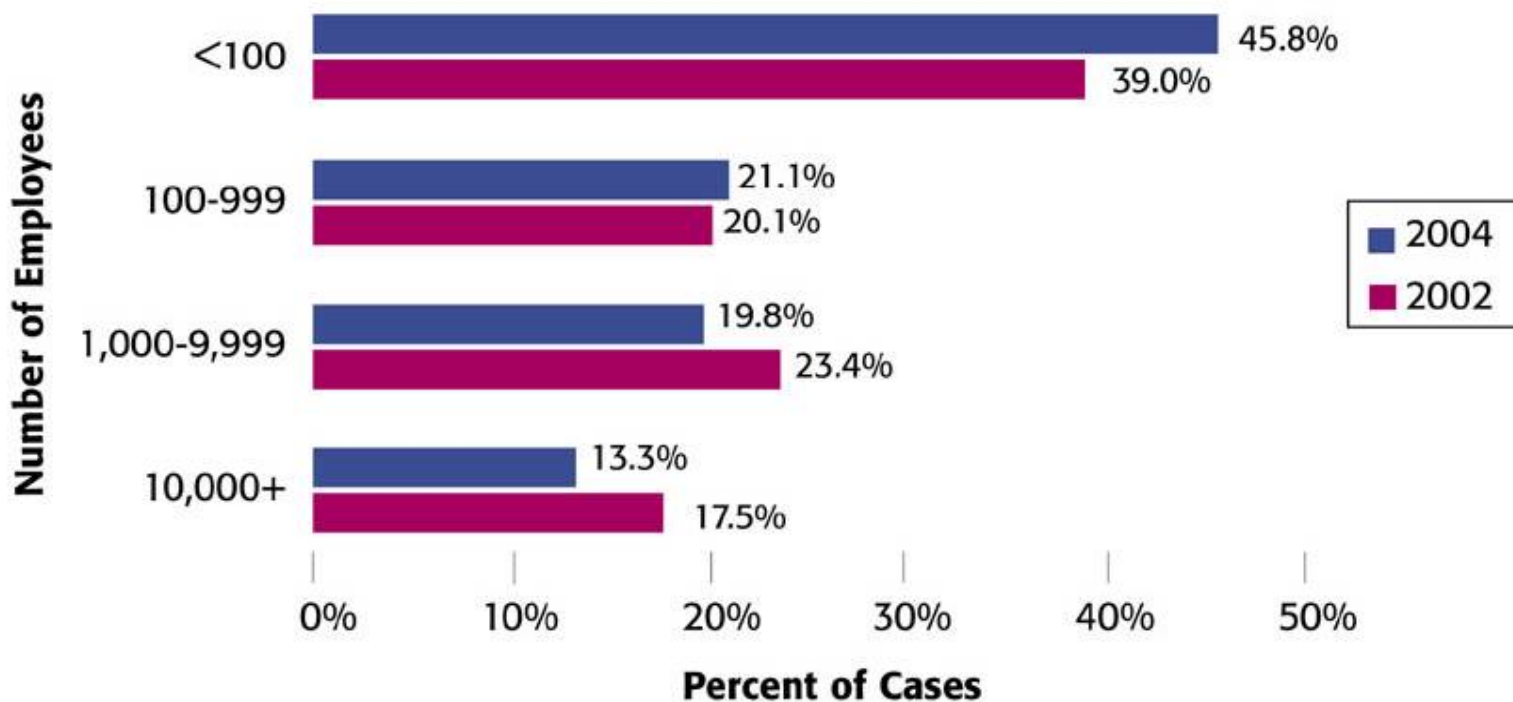
Who the Victims Are





Most Fraud at Small Organizations

Percent of Cases Based on Size of Victim Organization



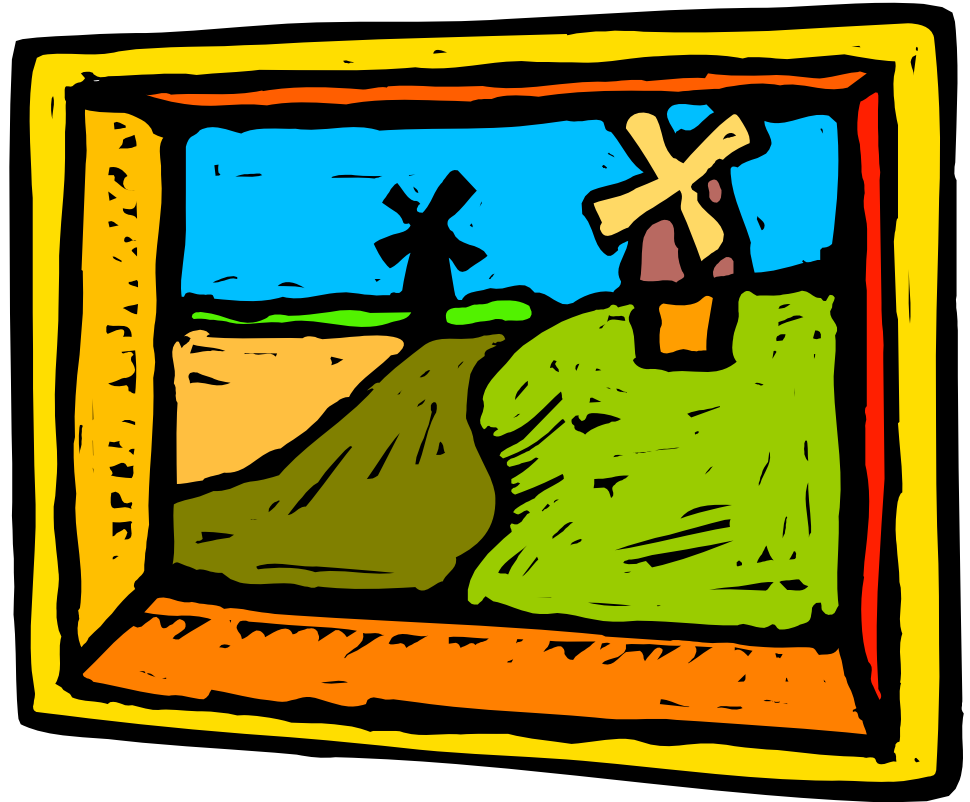


Small Organizations Suffer More

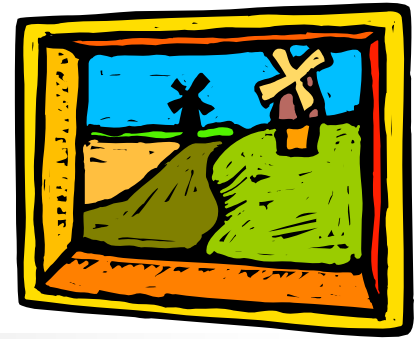


Fraud and Abuse

The BIG Picture



Are You Protected?

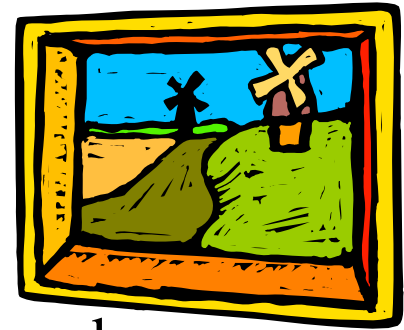


1. Question: If you miss a material fraud, get sued, and can show with a parade of experts that you performed a GAAS audit, that you put all the check marks in all the right boxes, is the jury bound to find you not liable?

Yes No

1. Why?

The Triangle of Fraud

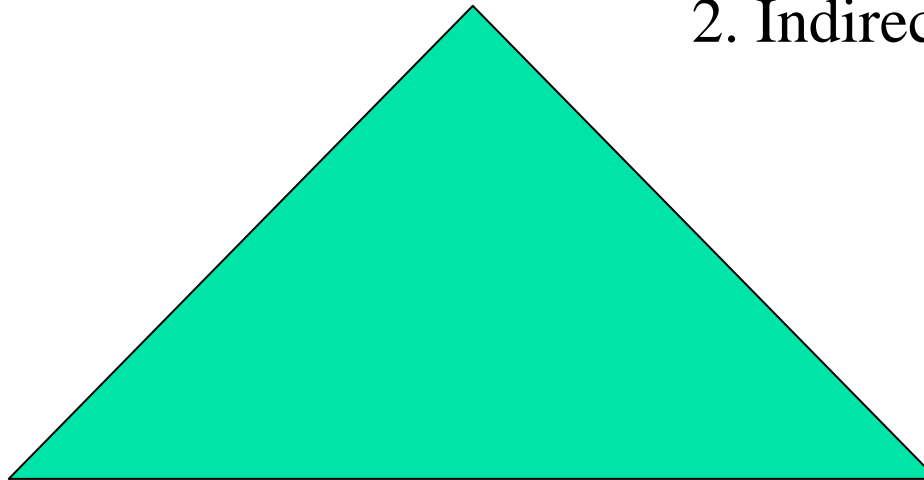


Two kinds of need:

1. Direct
2. Indirect

Trigger

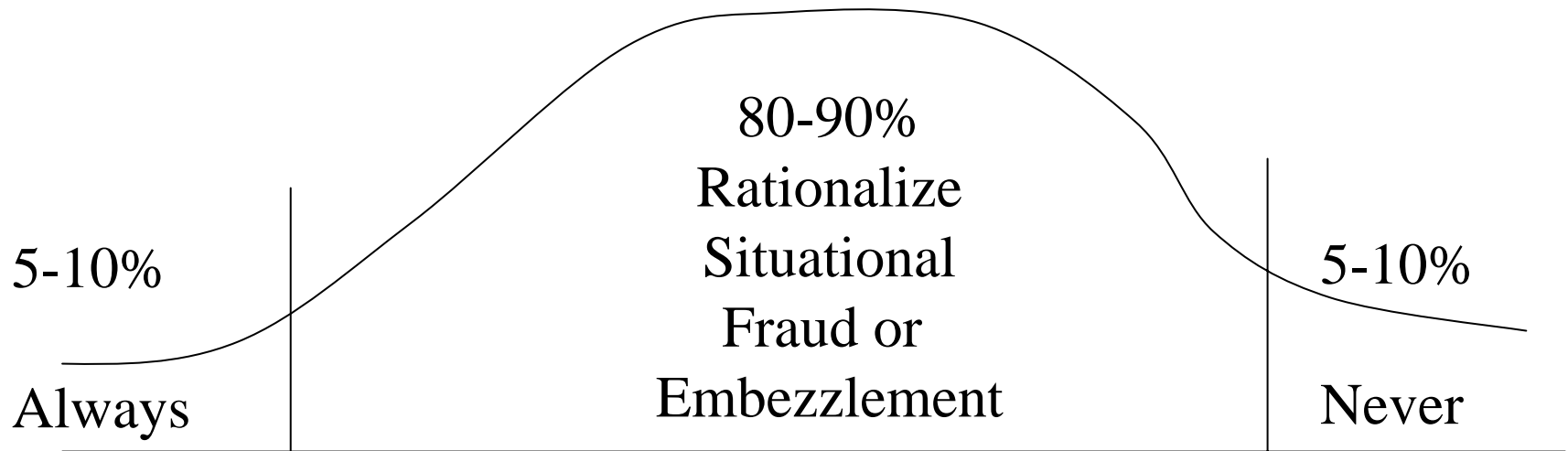
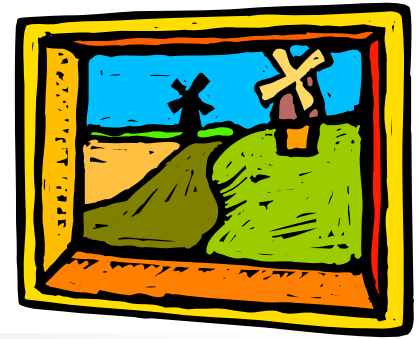
← Need



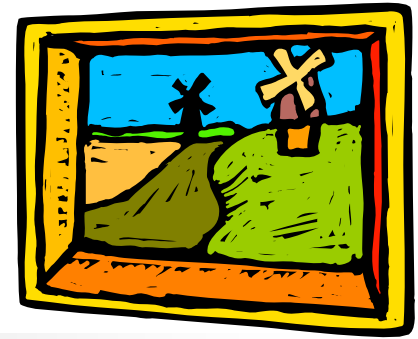
Opportunity
Low probability
of getting caught

Rationalization
Action fits
inside code of
conduct

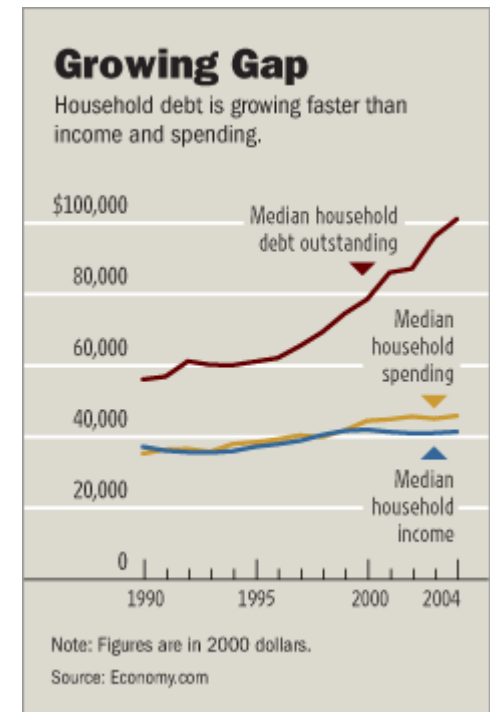
Situational Fraud



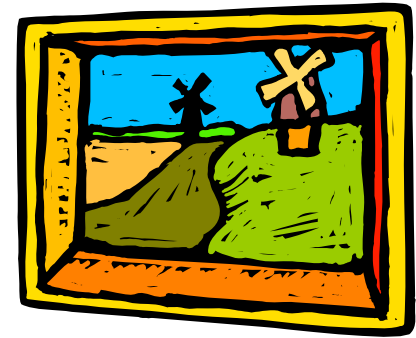
Rationalizing Fraud and Abuse



1. Personal financial or job problems
2. Tolerant culture
3. Peer pressure
4. Disgruntlement / malice / promotions on politics
5. Ego / ideological
6. Harassment or abuse by superior

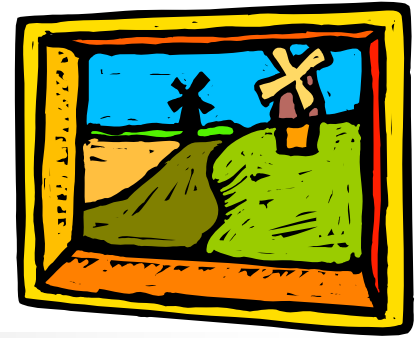


What is Fraud



- When a person **INTENTIONALLY** causes economic harm to another party
- Intent is a state of mind
- How do you determine intent? _____

Intent

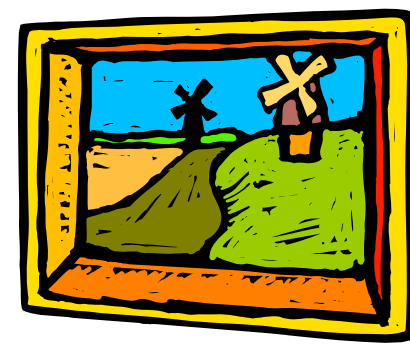


- “The Day America Told the Truth”
 - _____% lied routinely about trivial stuff
 - _____% lied about important stuff

- What would you do for \$10 million (Patterson+Kim)
 - 7% would _____ a stranger
 - 25% would _____ their families
 - 3% would put their children up for _____

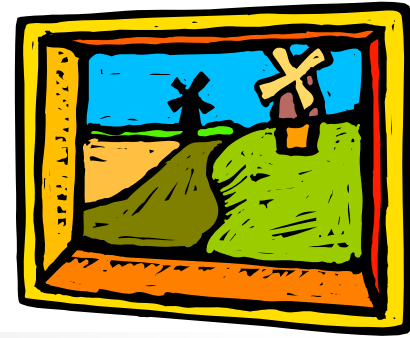


Fraud is any or all of.....



- Misrepresentation of facts
- Breach of fiduciary responsibility
- Suppression of the truth
- Omission of critical facts

2 Types of Government and NPO Frauds



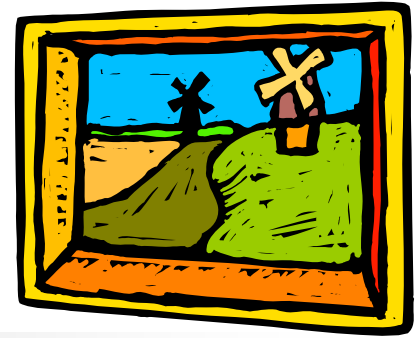
1. Internal

- Asset misappropriations
- Corruption
- Abuse

2. External

- Fraudulent financial reporting
- Fraud ON the entity

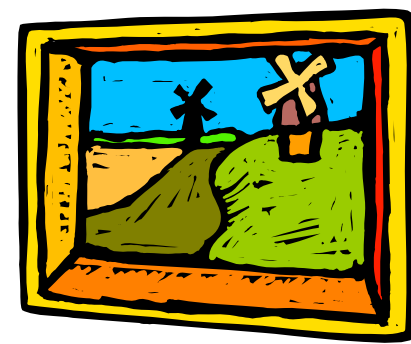
Internal Frauds



1. Asset misappropriations
 - Revenue and cash receipts
 - Purchasing and cash disbursements
 - Payroll and expense reporting
 - Noncash thefts
2. Corruption
 - Use influence to benefit themselves
 - Undisclosed conflicts of interest
3. Abuse
 - May not be illegal but inappropriate or unacceptable

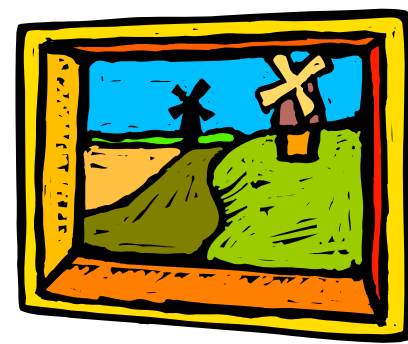


External Frauds



1. Less common than internal frauds
2. Committed by (examples)
 - Vendors
 - Service organizations
 - Subrecipients
 - Program participants

Legal Aspects of Fraud



Type of fraud	Description	Yrs
Mail fraud	Using the mail	20
Interstate transportation	Interstate or foreign transportation of money, goods, etc.	10
Wire fraud	Using wire, radio, or TV to defraud	20
False statements	To government agencies in general but also specifically (e.g., loan applications)	30



Recognize.....

1. Internal controls and an outside audit aren't enough to detect and prevent fraud
2. A multifaceted approach is required



6 Facts About Fraud and Abuse

1. It's already or will be in your organization
2. Real cost not just lost dollars
3. People and circumstances change
4. Internal controls are just one aspect
5. External audits are NOT enough
6. Everyone is responsible



What's Wrong with Traditional Model

1. Most financial controls focuses on prevention and not enough on _____
2. Focuses on fraud at what level _____
3. Focuses on financial controls and not enough on _____



Motives to Commit Fraud and Abuse

1. Internal motives

- Undercompensated
- Harassed or abuse by _____
- Job evaluations
- Promotions based on _____

2. External motives

- Drug, alcohol or gambling
- Financial stress
- Lifestyle

NPO Environment



TRUST



Excessive control



Poor oversight



**Compensation and job security
tied to grants or donations**



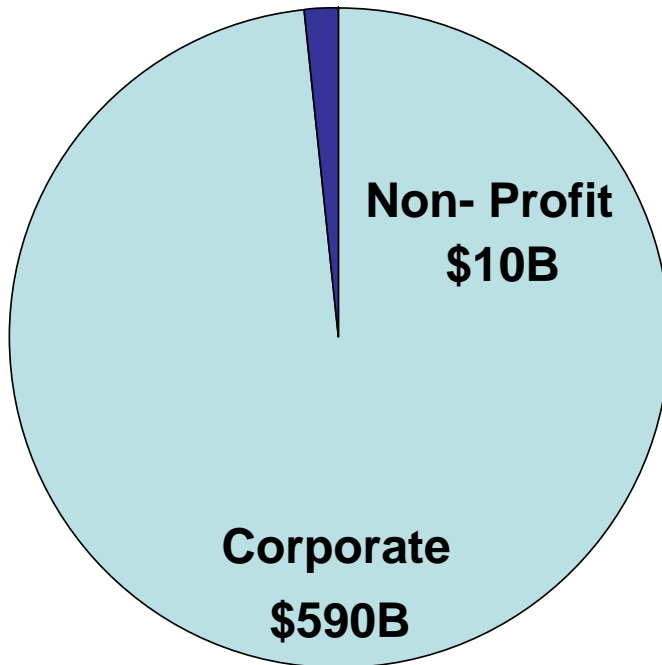
Types of NPOs at Risk

1. Churches
2. Homeless shelters
3. Social service agencies
4. Health care organizations
5. Amateur sports groups
6. Disaster relief organizations
7. Museums and zoos
8. Performing arts groups
9. Labor unions
10. Trade and professional organizations

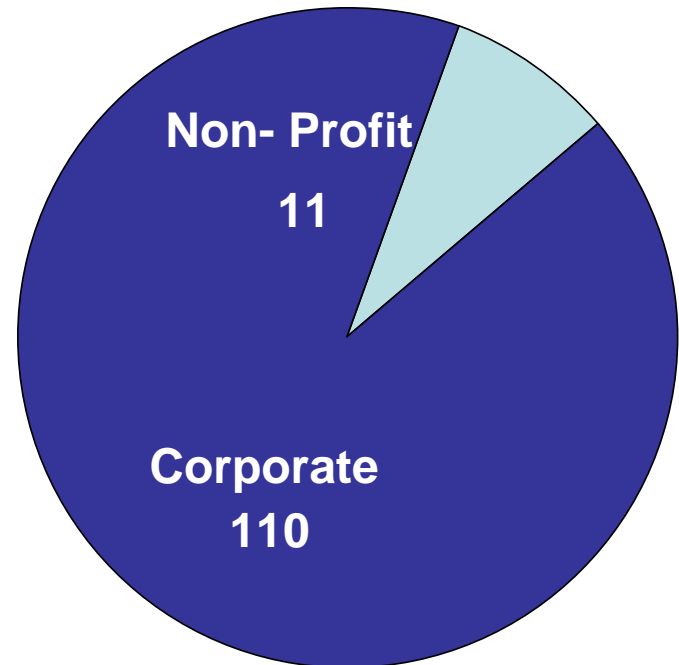
Who's at risk???

Fraud and Abuse in NPOs

Amount in Billions

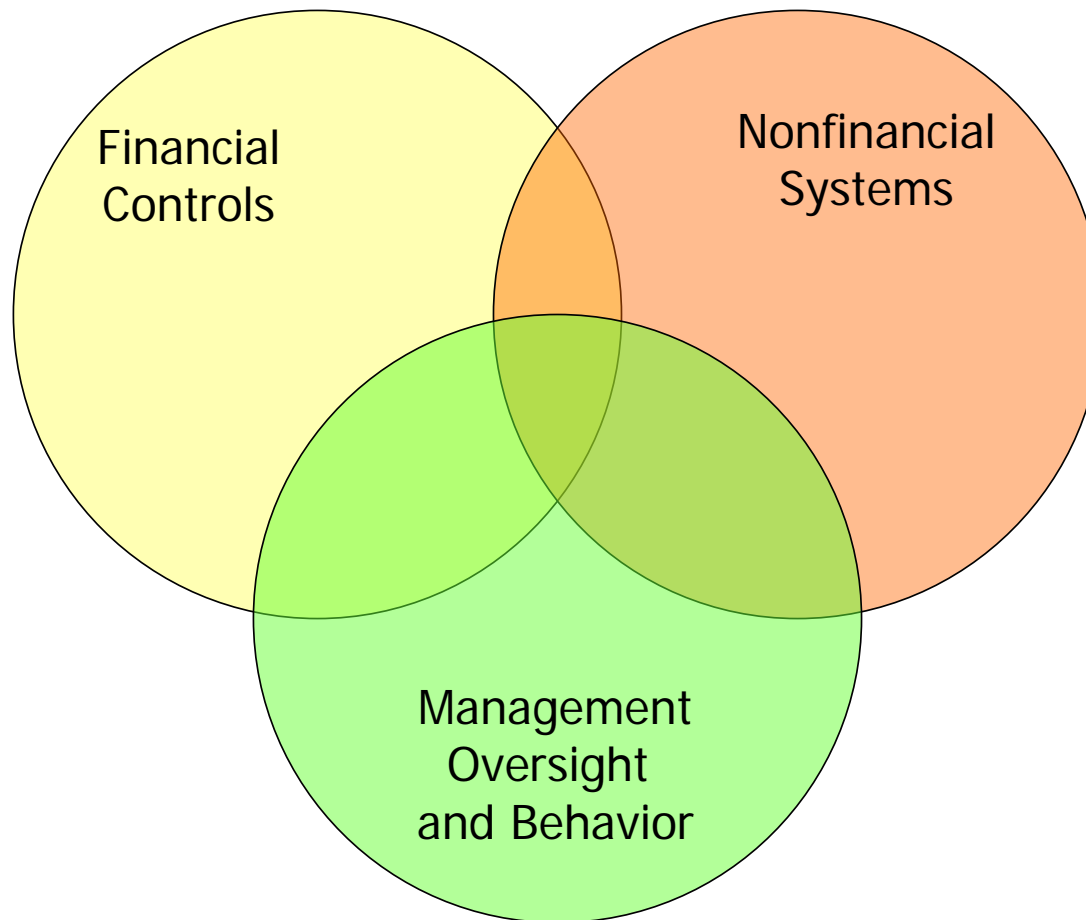


Employees in Millions



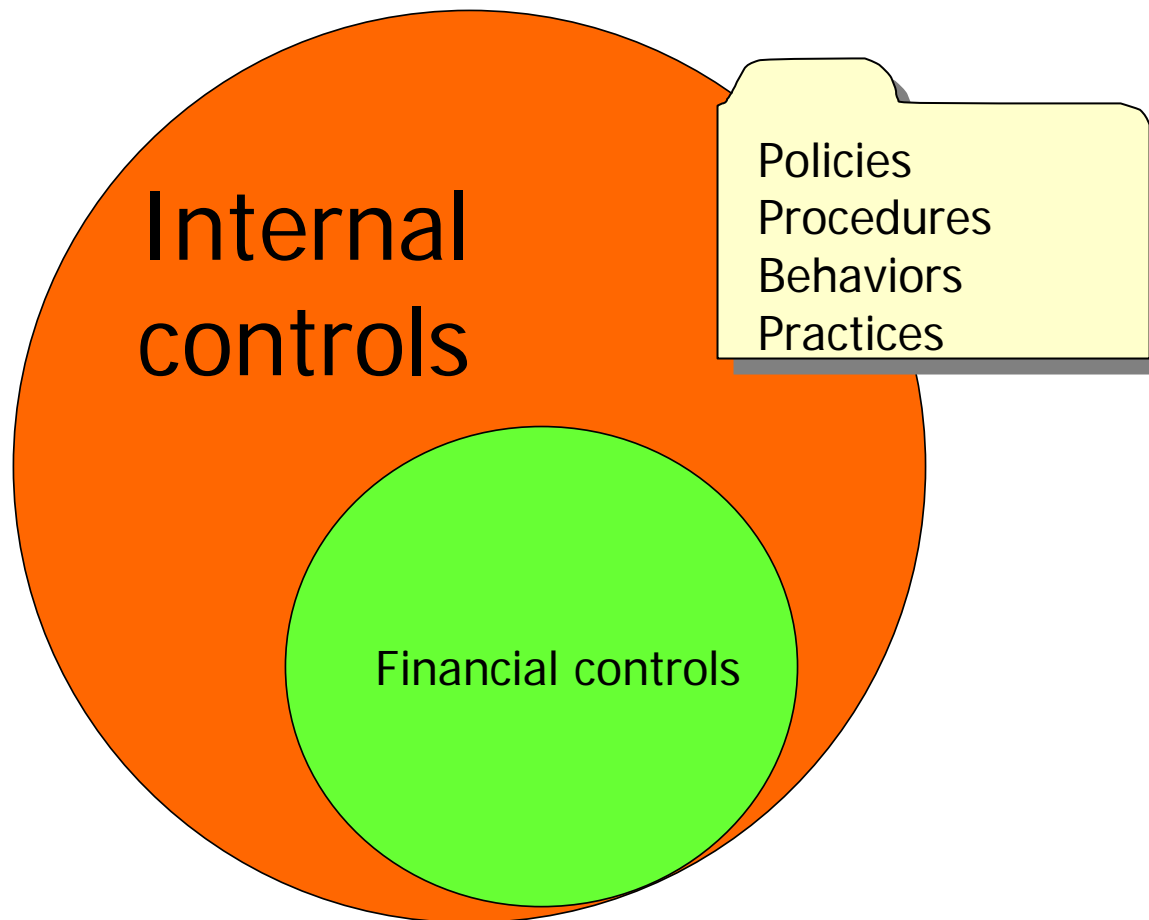


Comprehensive Model





Internal vs. Financial Controls



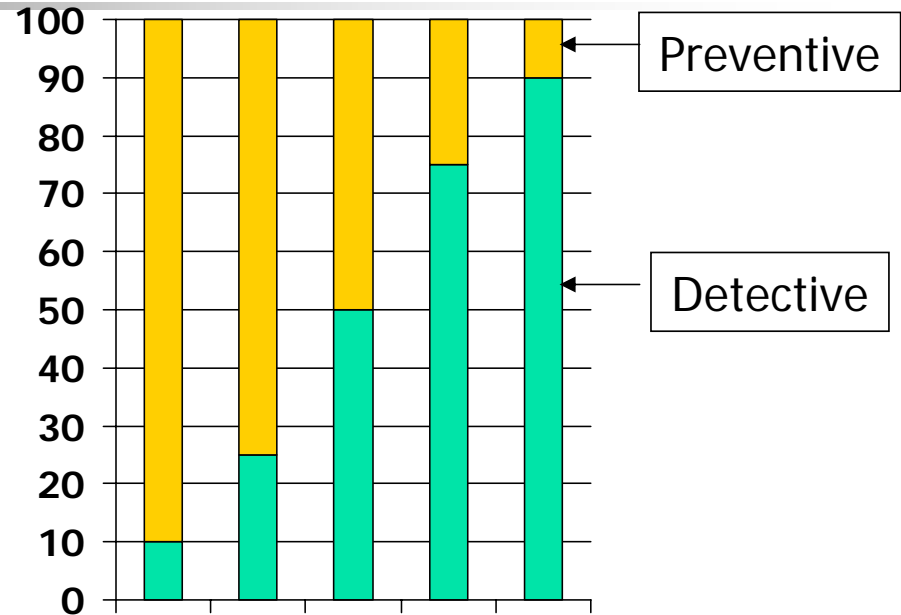
Financial Controls

1. Preventive controls

- Filing cabinets
- Passwords
- Approvals

2. Detective controls

- Bank recs
- Variance analysis
- Vacations
- Surveillance



WHICH IS NECESSARY??????

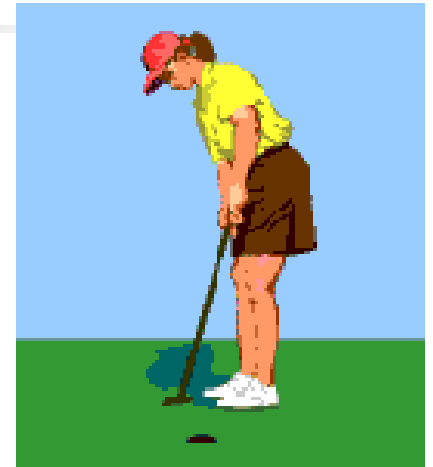


Nonfinancial Controls

1. HR and IT systems
2. Physical security
3. Communications systems
4. Insurance

Management Oversight + Behavior

1. Tone at the top
2. Financial analysis and budgeting
3. Communications
4. Board oversight
5. Integrity and ethics
6. Comply with organization policies





Segregate These Duties

1. Billing
2. Recording revenue
3. Receipt and recording payments
4. Deposits
5. Posting receipts
6. Reconciling bank statement
7. Reconciling A/R subledger



Revenue and Cash Receipts

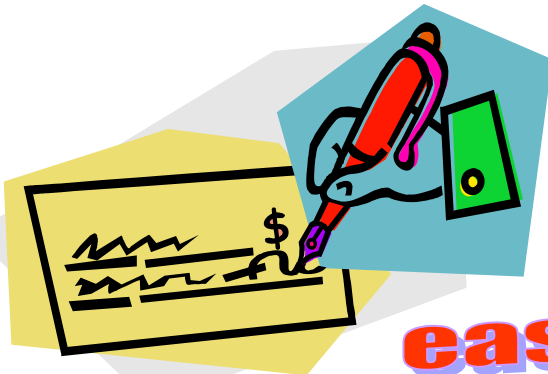
1. Skimming
2. Lapping
3. Write-offs
4. Unauthorized credits
5. Unrecorded sales
6. Theft of donated merchandise



Skimming Committed By.....



1. Anyone collecting or opening mail
2. Anyone logging receipts, preparing or making deposits
3. Anyone involved in sales
4. Door-to-door solicitations



Checks can be easily converted/stolen

Mississippi College President Skims

1. 15 years
2. Personally collected checks
3. Checking account in name of college
4. Receipts
5. Large gifts....54 averaging \$55,600....\$3 million
6. Detected when a fundraiser approached a donor who had already _____



Preventing(?) Skimming



1. Can't prevent
2. Dual control at first receipt
 - Don't have to hire a second employee
 - Each person count half in presence of other
3. Segregate recording pledges and post payments
4. Lockbox, but NOT foolproof
 - Donors won't use it
 - Print solicitations or insert BRE's with _____

Detecting Skimming



1. Rotate duties and require vacations
2. Reconcile BRE's received and Post Office charges
3. Mail donor statements
4. Publish lists of donor names



***These are NOT
very effective
so focus on***

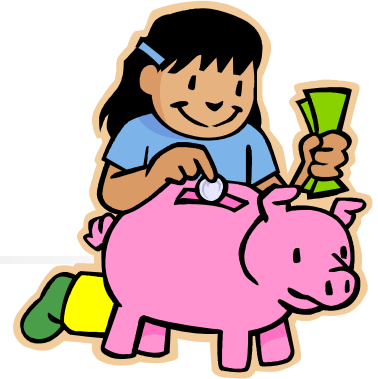
National Lumber and Building Material Dealers Association



1. Office manager and bookkeeper
2. New Life Business Management and Development Association checking account _____
3. Fundraising for new headquarters
4. Couldn't produce financial statements so _____
5. Donor noticed he wasn't listed NLBMDA _____
6. Took \$110,000 and sentenced to 25 months

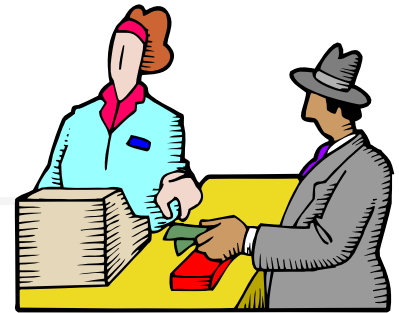


Other Skimming Opportunities



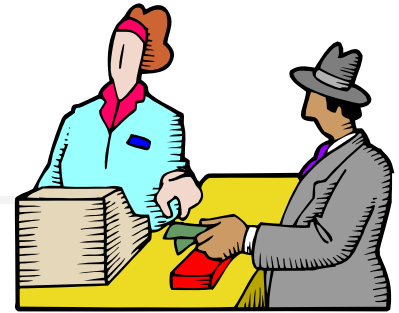
1. Late fees and similar charges
2. Membership dues
3. Conference and meeting revenue
4. Retail sales
5. Write-off of receivables
6. Unauthorized credits
7. Unrecorded sales
8. Theft of donated merchandise

Purchasing and Disbursement Schemes

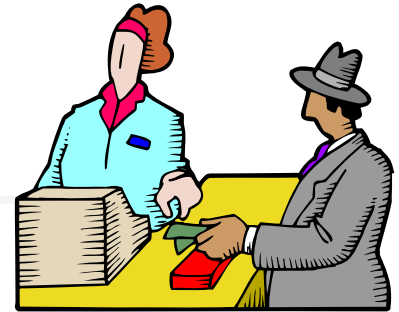


1. Billing schemes
2. Personal expenses
3. Refund schemes
4. Financial assistance schemes
5. Check tampering and EFT schemes

Controls Over Purchasing and Disbursements

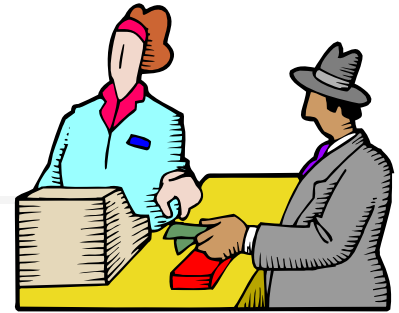


1. Purchase request and authorization
2. Receiving and recording payable
3. Approval of vendor invoices and check writing
4. Mailing of checks
5. Reconcile A/P subledger and bank account



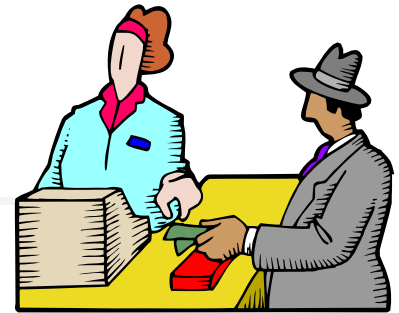
1. CFO embezzled \$214,000
2. GSR Services
3. Phony grants
4. Meeting refunds
5. Vendor invoices
 - Had a separate sets of checks printed
 - Destroyed checks to vendors
 - Paid personal bills with duplicate checks
 - Paid vendor rebilling including interest
6. Detected when another employee noticed a check to AmEx on his desk and knew _____

Personal Purchases



1. Use legit vendors
2. Usually not material
3. Purchasing or receiving employees
4. Supplies, food, books, clothing, computers, office furniture, and equipment
5. Typical control weaknesses
 - Failure to reconcile purchases with receivers
 - Failure to segregate duties

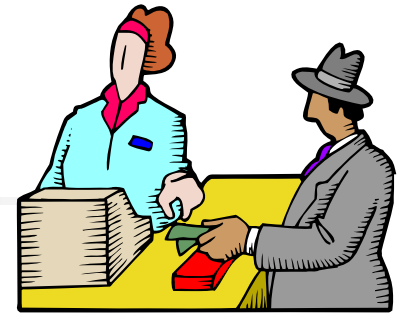
Credit Card Abuses



1. Anyone can have one
2. No credit checks on employees
3. Credit limits based on reasonable need
4. Locked up until needed
5. Card holders acknowledge rules and responsibility
6. Prompt review of statements
7. Submit supporting charge slips or pay personally
8. Quickly suspend or revoke if abused
9. Use purchasing cards instead of credit cards

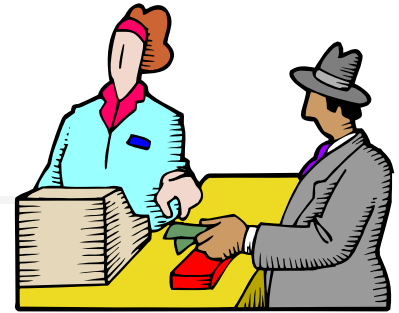
Billing Schemes

Credit Card WTU



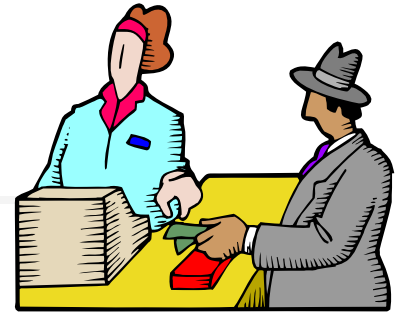
1. Washington Teachers Union
2. \$5+ million
3. President \$2,181,000
4. Assistant \$492,000
5. Treasurer \$537,000
6. Furs, art, jewelry, sports and entertainment,
custom-made clothing

Credit Card Best Practices



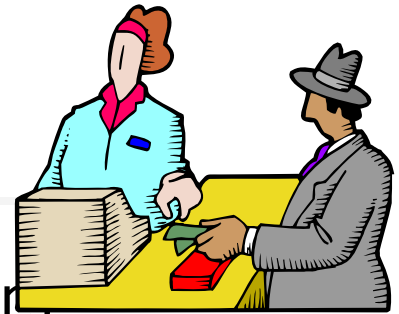
1. Criteria for issuance
2. Initial and annual credit checks
3. Position of trust
4. Used for business (with examples)
5. Never used for personal expenses or cash
6. Maintain physical control
7. Procedures for lost cards

Credit Card Best Practices



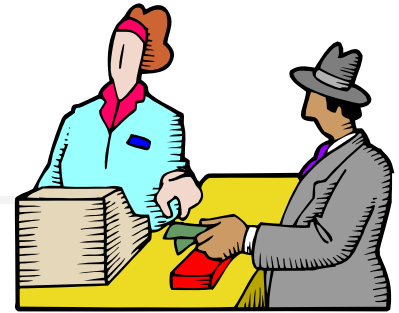
8. Spending limit by card
9. Types / amounts needing prior approval
10. Submit charge slips within ____ days
11. Report disputed charges within ____ days
12. Procedures to request increase in limit
13. Acknowledge violations of card policy violates code of conduct and is grounds for revocation, firing or prosecution

Duplicate Payment Schemes



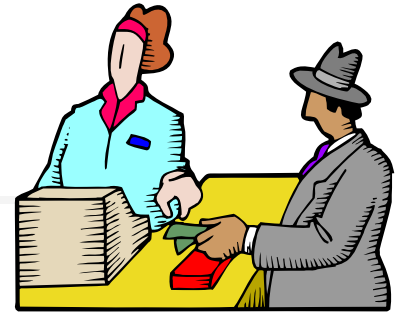
1. What: Multiple payments to legit vendors
2. Who: Purchasing employees, AP or accounting clerks
3. Poor controls make it easy
4. Services are easier since _____
5. Simple: Copied/faxed/original invoice not cancelled

Sophisticated Duplicate Payment Schemes



1. Create the duplicate payment
 1. Cut check for legit invoice but hold
 2. Wait for new statement with 'paid' amounts
 3. Pay same amount again
 4. Take the first check
2. Convert the check to cash
 1. Endorse over to their own name
 2. Open account in vendor name at different bank
 3. Use a check-cashing establishment

Minimizing Duplicate Payments



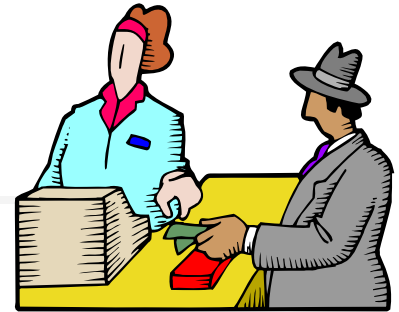
1. Preventive controls

- Pay from ONLY original invoices
- Match invoices with receivers or Pos
- Match quantities or services against authorized
- Capture vendor invoice numbers
- Immediately cancel vendor invoices
- Don't allow requestor to mail check

2. Detective controls

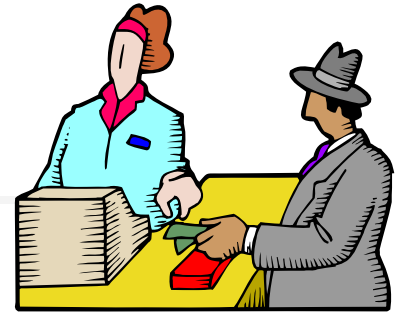
- Review vendor histories, endorsements
- Confirmations

Fictitious Vendor Invoices



1. Most for services
2. Don't divert check
3. Mail to _____, _____, _____
4. Use former legit vendor
 - Must intercept the check or change the address

Minimizing Fraudulent Vendors



1. Preventive controls

- Verify existence
- Segregate duties
- Delete old vendors

2. Detective controls

- Review vendor master file
- Compare budget vs. actual and prior year
- Review vendor payment details
 - Consecutive invoice numbers
 - Different sequence



Welcome to
The Natural Gas Supply Association
Representing the Nation's Producers of Natural Gas

1. Nick Bush
2. 54 years old, reserved, introspective
3. Annual pay \$300,000
4. Stole \$3+ million over 13 years
5. \$2+ million unaccounted for
6. Used bogus consulting contracts



Welcome to
The Natural Gas Supply Association
Representing the Nation's Producers of Natural Gas

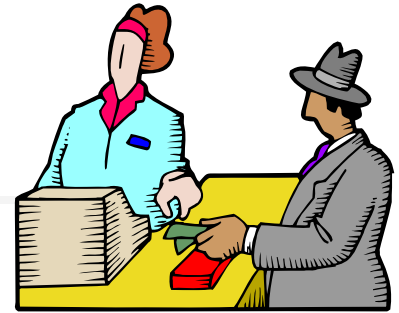
1. Bush set up fictitious consulting agreements with:
 1. James W.O. Rogers
 2. James Rosebush
 3. Duberstein Group
2. "I'll personally deliver the checks."
3. Margaret Elizabeth Martin
4. Restaurant letterhead ~\$200,000



Welcome to
The Natural Gas Supply Association
Representing the Nation's Producers of Natural Gas

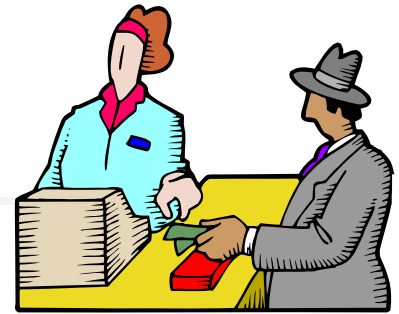
1. Jan. 20, 1999 Rogers gets IRS notice
2. IRS Form 1099s
3. Bush, "indicated [to Rogers] that there was some sort of confusion in his accounting department that had resulted from out-sourcing the accounting function of NGSA. Mr. Bush apologized for the mistake and indicated that it would be taken care of promptly."
4. John Sharp general counsel

Refund Schemes



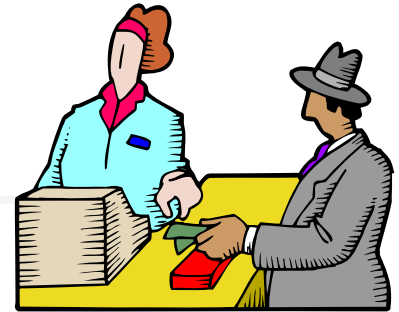
1. Refunds by check
 - Canceled conferences, seminars, meetings, memberships, subscriptions
 - Returns of items sold
2. Refunds at cash register
3. Weaker controls over refunds than checks to pay vendors

Financial Assistance Schemes



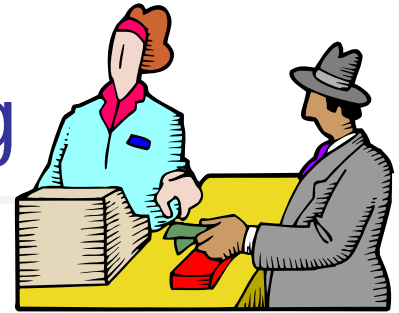
1. Internal schemes usually MUCH larger
2. NYU Official Admits \$4.1 Million Theft
 - 1000 checks to fake students
 - 10 years
 - Every check in different name

Check Tampering



1. Forge authorized signature
2. Alter payee
 - White-out or correction tape
 - _____ ink
 - Add characters IBM _____
 - Chemical wash

Positive Pay Prevents Tampering

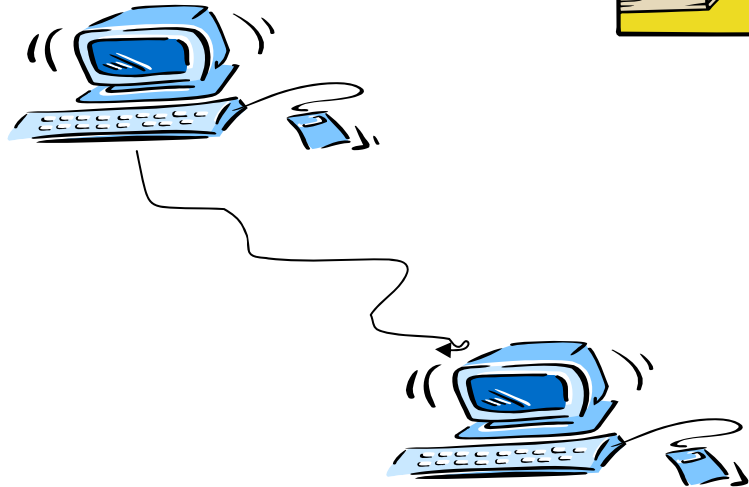
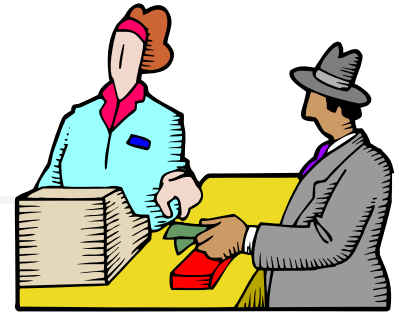


1. Article 3 and 4 of UCC
 - Responsibility and accountability
2. "Ordinary Care" -- Company can be fully liable
3. Positive pay
 - Company sends electronic list of checks
 - Check number, amount, date, payee
 - Bank matches
 - Differences

Wire Transfer Fraud

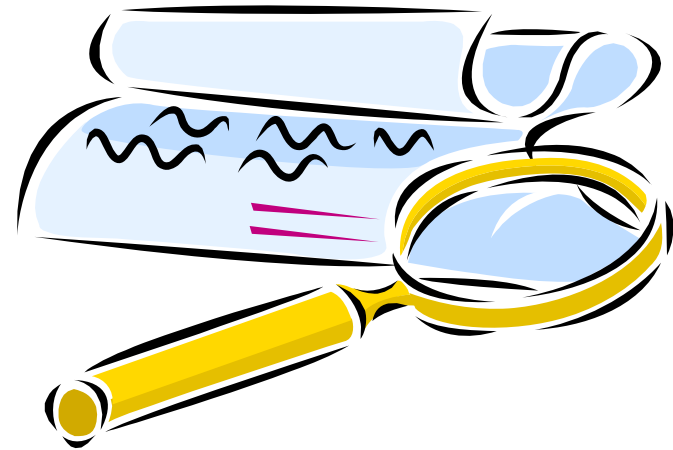


**CFO Daniel S. Wiant
sentenced to 15 years for
stealing \$7.8 million from
the Ohio Chapter of the
American Cancer Society**





Payroll and Expense Schemes





Ghost Employees



1. Fake employee on payroll
2. Least common but most costly
3. Most common in large organizations because employees _____
4. What's required:
 1. Add a new employee or keep a former employee
 2. Hourly – prepare and insert timesheet



Minimizing Ghost employees



1. Different employees add/maintain employee records vs. check prep and distribution
2. ID
3. Match payroll with employee list
4. Check employee number sequence
5. Do payroll deductions make sense
6. Does net payroll = funds transferred

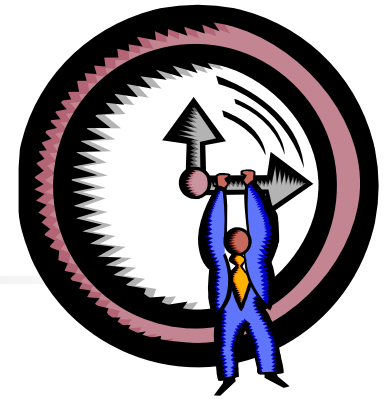


Minimizing Ghost employees



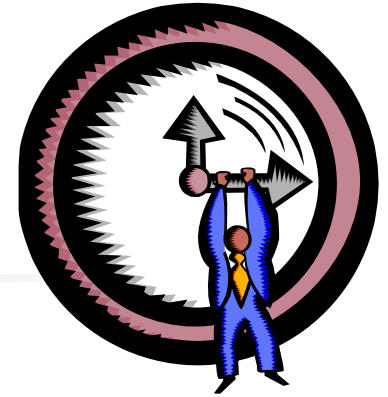
7. Do all employees have personnel files
8. Check for former employees on payroll
9. Duplicate addresses/SSNs/deposit account #s
10. Reconcile account by someone not in payroll system
11. Review endorsements for multiple paychecks to same person
12. Reconcile payroll accounts to control accounts

Overstatement of Hours Worked



1. Most common
2. Individually small but can be BIG if _____
3. E&Y 2002 survey
 - 16% of employees report witnessing
 - 1.76 million of 11 million nonprofit employees

Overstatement of Hours Worked Manual Systems



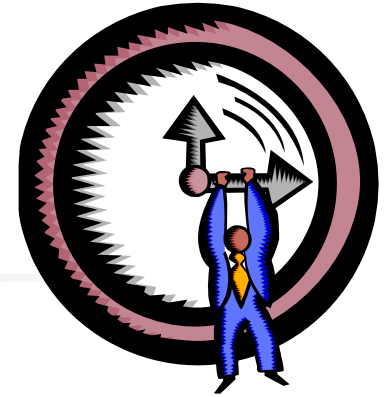
1. Manipulating

- Forge supervisor's signature
- Change timesheets after approval
- Supervisor _____

2. Controls

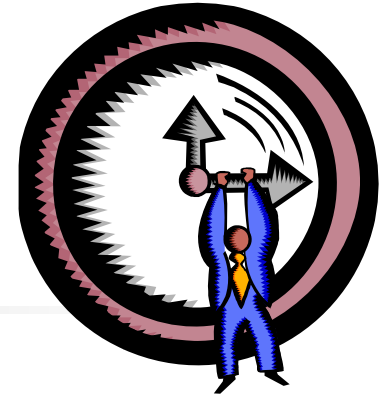
- Review by someone who knows _____
- Control timesheets after _____
- Send timesheets directly/timely to payroll
- Formal process for corrections

Overstatement of Hours Worked Computerized Systems



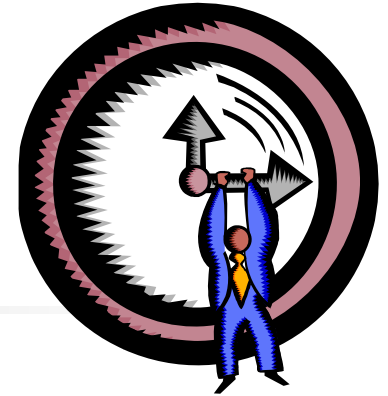
1. Most common
 - Employees clock others in/out
 - Front-line workers
2. Controls
 - Supervisor monitor or video camera
 - Passwords or fingerprints
 - Periodically change

Overstatement of Pay Rates



1. Usually office workers or someone who can change master file
2. Preventive controls
 - Segregate authorization of pay rates from entry
 - Password protect access
 - Signed forms by supervisor and/or employee
3. Detective controls
 - Review and approve prior to check distribution
 - Hours X Rate (_____) = Payroll register

Payroll Withholding Schemes



■ Overage to themselves to get a LARGE _____

1 ■ Payroll clerk withholds too little of own pay but remits too much

■ Match remittance to _____

2 ■ Payroll clerk withholds too little of own pay but overwithholds from other employees

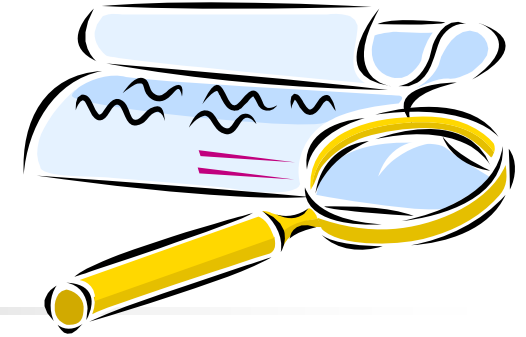
■ TOTAL withholdings are _____

■ Can be used on any _____

■ Outside payroll service



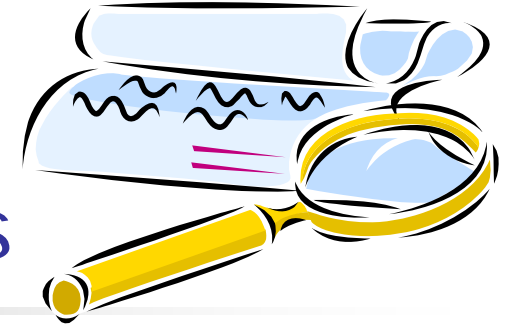
Expense Schemes



1. Best protection
 - Segregation of duties
 - Comprehensive review and approval
2. *but* difficult to CONTROL if top management
 - Review by board, internal or external auditor even if has to be after the fact

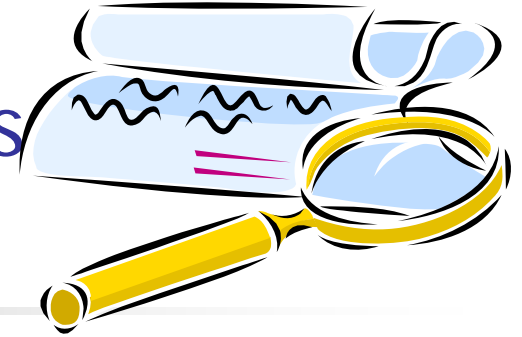


Fictitious/Duplicate Expenses



1. Easy to create/duplicate receipts with _____
2. Fill in blank copies of receipts _____
3. Submit same receipt on _____
4. Submit different receipts for same expense _____
5. Submit receipt paid by another organization
 - Employee on industry association board/comm
6. Submit receipt for items paid directly
7. Two employees submit receipts for same expense

Fictitious/Duplicate Expenses Prevention and Detection



1. Cross-check between employees
2. Compare employee's sequential expense reports
3. Submit within specified time to _____
4. Compare expense reports with AP for direct pays



Airfare and Travel - 3 Schemes



1. Travel never taken
2. Switching tickets
3. Tickets for companions



- 2 tickets for legit trip
- Advance low price ticket
- Last minute ticket
- Cancel second ticket
- Keeps _____



Controlling Travel Schemes



1. Preventive controls

- Pre-approval
- Proof of trip (get _____)

2. Detective controls

- Cross-check ticket numbers
- Employee's name on supporting docs
- Match dates on tickets to hotel/meals/timesheets

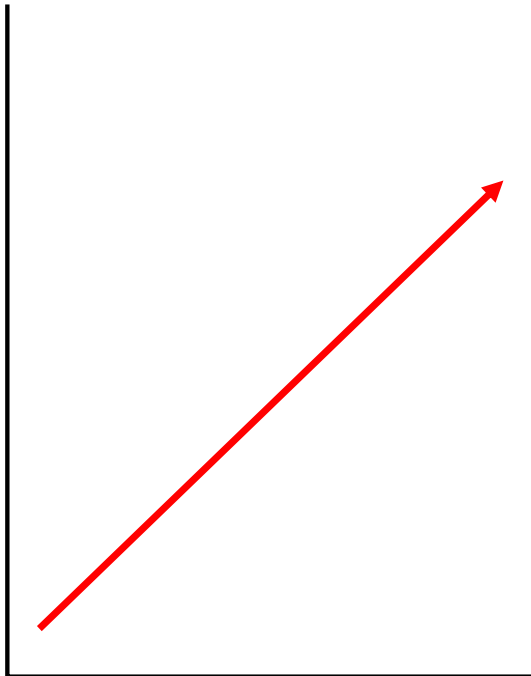


Personal Purchase Schemes



1. Hard if top management
2. Preventive control
 - Pre-approval best but not practical for travel exp
 - Does AP have a reason to pay attention
3. Detective controls
 - _____ invoices or receipts
 - Check name and address on invoice/receipt
 - Name/org of everyone on meal receipt (check?)
 - Examine receipts for non-business items

Fundraising Fraud and Abuse



Fundraising Fraud and Abuse



1. Percentage used for program expenses
2. Deductibility
3. How the contribution is spent

How much is contributed to charities every year?

Percentage Used for Program Expenses



1. Most common allegation
2. Phone/direct mail/special fundraising
3. Is "100% of the proceeds will be used in charitable programs," if used to offset fundraising costs? _____
4. VERY carefully draft and review fundraising materials and scripts

Multiple Sclerosis Association of America



1. MSAA not National Multiple Sclerosis Society
2. Telemarketers under contract told donors

3. Telemarketers kept at least _____
4. NJ filed suit
5. MSAA paid \$150,000
6. President and VP paid \$75,000
7. Fraudulent or abusive practices of outside parties
can be attributed to the NPO if they are _____

Donor Restrictions



1. Directed donations growing rapidly
2. Some charities retaining funds
3. Increasing accusations of noncompliance
 - Changing atmosphere since 9/11
 - Lack of donor trust
 - Specific component(s) of a program

Designated Donations in Central Ohio

	DONATIONS TO OUTSIDE GROUPS	PERCENTAGE OF CAMPAIGN TOTAL
1997	\$3,972,913	10%
1998	\$5,082,436	12%
1999	\$5,742,243	12.6%
2000	\$7,343,168	14.4%
2001	\$9,481,897	18.1%
2002	\$9,228,787	17.7%
2003	\$9,245,219	17.6%
2004	\$10,400,000	19.6%

The Columbus Dispatch, March 3, 2005, A1

Red Cross Screws Up



American
Red Cross



1. 9/11 charities raise \$2 billion
2. Red Cross raises \$500 million
3. Web site: Use *some* for direct assistance to families/victims with rest for variety of programs for future disasters
4. No indication of fraud/abuse/intentional misleading
5. Donor-imposed restrictions are MUCH more than explicit statements in the fundraising materials
 - Event/timing *create unwritten* restrictions



Dr. Bernadine Healy

Donor Lawsuits



1. USC: \$1.6 million for chair in geriatric biology
 - Part spent on 'ineligible' uses such as scientists who otherwise didn't _____
2. Chicago Community Trust managed \$300 million fund Searle Fund
 - Family sued alleging CCT wasn't seeking advice on grants and charging unreasonable mgt fee
3. Princeton University receives \$35 million in stock in 1961 (\$_____+ million) to train grad students in gov't
 - Family sued for using the money for _____

Donor Bill of Rights



1. Created by

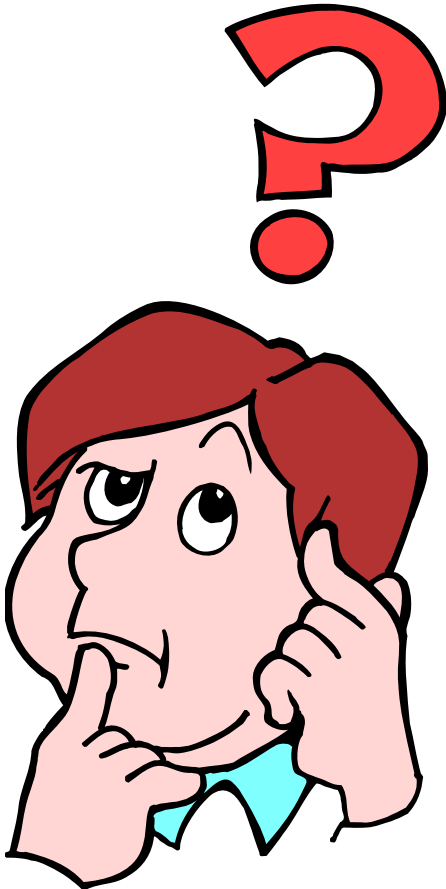
- American Association of Fund Raising Counsel
- Association for Healthcare Philanthropy
- Association of Fundraising Professionals



Donor Restrictions



What are you doing to determine if your client or nonprofit is



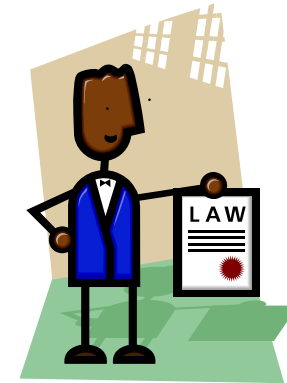
HR to Minimize Fraud



1 Rule...
Talk to your
ATTORNEY.

HR to Minimize Fraud

1. Hiring practices
2. Identity verification
3. New employee orientation
4. Leave policies
5. Exit interviews



Hiring Practices Fight Fraud



1. Background checks (Fair Credit Reporting Act)
2. Identity verification
3. Honesty testing
4. Qualification verification

Background Checks Fight Fraud



**BY APPLYING FOR A JOB WITH _____
YOU AGREE TO THE FOLLOWING BACKGROUND
CHECKS:**

1. Criminal
2. Civil
3. Credit
4. Driving

Signature

Date

Wire Transfer Fraud



**CFO Daniel S. Wiant
sentenced to 15 years for
stealing \$7.8 million from
the Ohio Chapter of the
American Cancer Society**

1. 1987 + 1988 got 2 years for credit card fraud
2. 1992 admitted stealing \$20,000 from Maui Foodbank as Executive Director

Identity Verification Fights Fraud



1. Verify identity and determine if any other public information insight into the applicant
2. Sources:
 - InstantID www.lexis-nexis.com/riskwise/instantid
 - VerifyIds www.verifyids.com
3. Cross check public data bases for inconsistencies

Indiana Public Employees Retirement System



1. 1993 Ohio State law school grad
2. 1993-6 P&G
3. 1997-2001 Cook Inc.
4. 2001 Indiana PERS Chief Benefits Officer
5. 200,000 personnel records
6. Nov. 1 1996 to Jan 97 prison
7. Used another person's SSN with same name
8. PERS job app now asks if ever _____



Shelter Inc.



1. Hired George Dewey Davis one year after serving 7 years of 16
2. Davis was a _____
3. Managed a nonprofit house young adult mental health clients for 2 years
4. Forced young women to _____
5. Threatened to kill and rape others and pets

Shelter Inc.



6. Shelter Inc., allegedly told clients that Davis was a licensed psychotherapist with 15 years of counseling and therapeutic experience
7. Shelter accused of negligence, fraud, false imprisonment breach of privacy, and physical and emotional abuse
8. Executive director, program director and administrators also named in suit
9. No allegations Davis molested anyone in the home

New employee orientation



1. Intolerance for fraud and abuse
2. Code of conduct
3. Physical security
4. Recordkeeping and documentation requirements
5. How to report fraud and abuse
6. Executive Director can stress importance of fraud/abuse-free organization

Leave Policies Fight Fraud



1. More content workforce less likely to _____
2. Mandatory vacations allow fraud detection when someone else _____
3. Current job descriptions with procedures
4. Formally assign backups for key people
5. Cross-training
6. Everyone MUST know to report fraud/abuse or unusual activities/findings and how



Exit Interviews Fight Fraud



1. Reluctance to report fraud/abuse
2. Why _____
3. Someone outside the department
4. Ask directly

Management and Board Fight Fraud



1. Day-to-day operations
2. Organizational oversight
3. Fiscal management

SAS 99: Consideration of Fraud in a Financial Statement Audit



1. Management Expected to Know About Fraud
 - No more pretending there isn't a risk of fraud
 - Proactively address fraud
2. Auditors are to query mgt about:
 - Their understanding about the risk of fraud
 - Programs and controls to mitigate risks and how mgt monitors them
 - How mgt communicates expectations and ethics

Federal Sentencing Guidelines



1. Chapter 8 of 2002 Federal Sentencing Guidelines
“Sentencing of Organizations”
2. Organizations can be fined for criminal actions of agents even if carried out in the course of their duties with intent to benefit the organization
3. Fines: \$5,000 to \$72,500,000 + 5 years probation
4. 7 steps to avoid or reduce fines and other factors:
 - Any previous violations
 - Knowing participation of high-level management

Anti-Fraud Culture



1. Tone at the top
2. Supervisors and managers
 - At least as important as mgt _____
3. Fail to prevent fraud because _____
 - Think fraud is _____ job
 - Controls prevent/detect all fraud
 - They DON'T play a critical role



Sarbanes-Oxley



1. Whistle-blower provisions of SOX apply to all organizations
2. Protects anyone who reports suspected misconduct
3. Crime to knowingly, with intent to retaliate, take any action harmful, including interfering with employment or livelihood, for providing law enforcement with truthful information of a federal offense
4. Up to 10 years

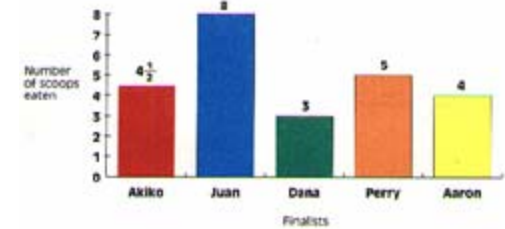
Central Bearing Sea Fishermen's Association



1. Temp controller told full time controller stealing
2. Bookkeeper tells temp controller pres is stealing
3. Board members authorize temp investigate
4. Pres fires temp controller and tells state officials of false accusations and tells board he.....
5. Board determined temp controller was right and offers him job in another _____
6. Assn paid punitive damages of _____
7. Pres paid _____

Reasonableness Testing for Expected Revenue

The Student Council at Jefferson Elementary held an ice cream eating contest at the school fair.

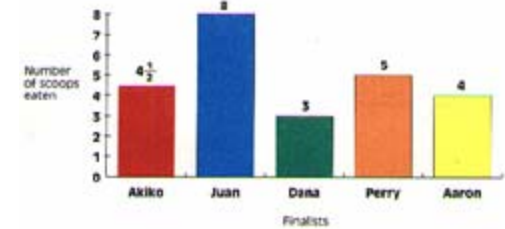


From conferences, trade shows, seminars, meetings =
Avg registration rate X expected attendance from

- Hotel invoices
- Sign-up lists
- Room set-up
- Handouts

Reasonableness Testing for Expected Revenue

The Student Council at Jefferson Elementary held an ice cream eating contest at the school fair.



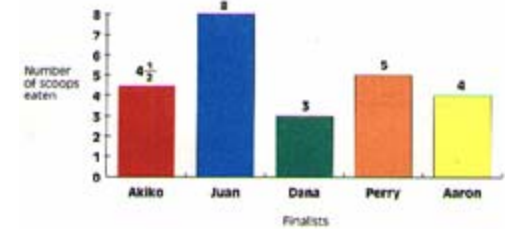
From membership dues =

Avg dues X expected number of members from

- Member benefit mailings
- Membership database
- Published directory
- Printing invoices for materials sent

Reasonableness Testing for Expected Revenue

The Student Council at Jefferson Elementary held an ice cream eating contest at the school fair.



1. For completeness of contributions compare number of donors, not dollar amount, with quantity of BRE's
2. Compare list of donors or amounts of contributions to acknowledgements mailed or in program books

Get the data from
a person NOT in
a position to _____



Government Fraud and Abuse



Special Nature of Government Fraud and Abuse



1. Public servants owe a duty to taxpayers
2. If fraud in a.....
 - private company the owner suffers
 - public company the shareholders suffer
 - gov't entity the taxpayers have to foot the bill
 - Critical difference is ownership
3. When something goes wrong gov't entities assumed _____
4. Therefore gov't entities held to the _____
 - Why? Because taxpayers don't have any _____



Capital Projects

1. Nearly always have high risk of corruption
 - BIG money over long period
 - Can be success or ruin for contractor
2. Formal, detailed contract with monitoring



Compared to for-profit companies, creates 'red tape' that's inefficient but in long run dishonesty is even more _____.



10 Activities for Capital Projects

1. Establish the NEED....mostly _____
2. Freedom of information to parties
 - Open debate on need, costs and motives deters fraud and abuse more than if no debate
3. Planning and related issues
 - Conflicts of interest or collusion between gov't employee/contractor nearly impossible to detect
4. Feasibility and contract design
 - General specifications open to fraud and abuse
 - Cost-benefit analysis....how do designs compare



10 Activities for Capital Projects

5. Contract letting

- Number of companies invited and criteria
- Selection MUST be fully recorded
- Permanent contractor lists for specialization
 - Risk of corruption increases
 - How does company get 'approved'
 - How does company move to BIG list
 - Who decides if company should be dropped



10 Activities for Capital Projects

5. Contract letting (con't)

- Senior official chooses contractor (specialization)
 - Independent confirmation of contractors
 - Include last winner (job done generally right)
 - Include at least 4 others on rotating basis



10 Activities for Capital Projects

5. Contract letting (con't)

- Same RFP to everyone
 - 'Design and build' same initial specs
- Site visits open to all bidders at same time
- Additional info sent to all bidders
- All bids MUST be received by due date, held securely unopened, opened by independent parties, signed by all everyone present
- Summarize results and send to every bidder for review (without _____)



10 Activities for Capital Projects

6. Bid evaluation

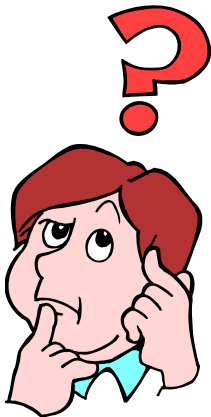
- 'Design and builds' are complex
- All but simplest usually political so risk of _____
- Questions usually after debate and awarding so evaluation should be fully _____
- Pay attention to even trivial accusations



10 Activities for Capital Projects

7. Contract awarding

- Delays very common resulting in more costs
- Site access, working conditions and hours, effect on other properties, start/end dates, completion bonuses may not be in the contract
- Poor drafting/mgt or deliberate



Compare to other entity contracts or contracts standard for that type of project for usual level of detail. In other words, is detail missing _____????



10 Activities for Capital Projects

8. Performance monitoring

- Separate duties of contractor and entity
- Site visits
- Management reports
 - First sign of fraud is often failure to _____
 - Exception reporting takes lots of guts and substantial judgment under pressure
 - Regular management reporting usually better to combat fraud and abuse
- Unusual claims/payments not in original contract



10 Activities for Capital Projects

9. Completion and final accounting

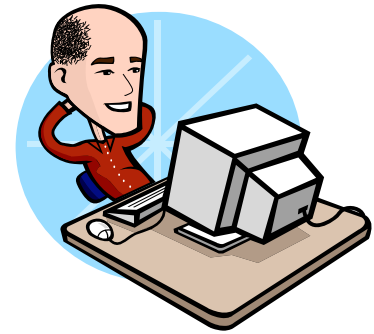
- Does someone certify accuracy
- Alterations to original contract, change orders, etc. should be OK'd by all parties
- Missing documents should be replaced (originals)
- Work records (eg, timesheets) should be certified
- Make sure correspondence files are complete



10 Activities for Capital Projects

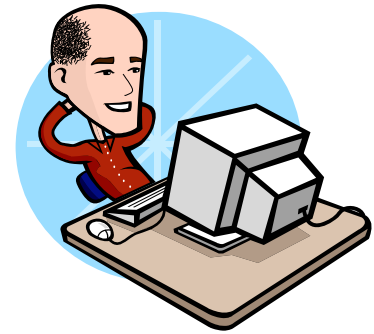
10. Post-contract assessment and final release of money

- Shouldn't be automatic upon 'certification'
- Did we make the right decisions in early stage
- Did we choose the right contractor
- Does the project meet the need
- Poor cost/benefit is often sign of _____



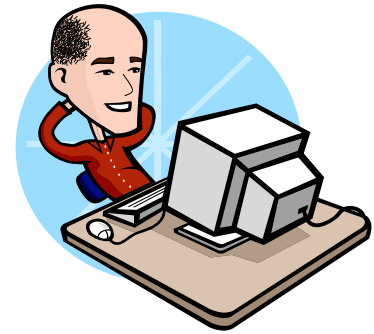
Computer Systems

1. Computers hide action more easily than paper
2. Employee no one else _____ the system
3. Frequent changes in technology
4. Unauthorized funds transfer can be done _____
5. Management hasn't thought how systems could be used to defraud the entity
6. Usually a highly skilled/disgruntled/trusted employee



Computer Systems

1. Segregate duties
2. Strict password control
3. Non-erasable audit trail
4. Follow original input to transactions by _____
5. Does anyone insure the integrity of original input
6. Data should be authenticated after input
7. Updating of records major source of fraud/abuse
8. Physical security
 - Staff log off when leaving
 - Printers in secure area



Government Computers

1. Small town gov't agency
2. Older equipment with 3 networked PC's
3. Most equipment was viewable by public
4. Installer instructed on operation but not security
5. Tax and other records kept on shelves out front
6. Employees often 'disappeared'
7. Monitors left on displaying _____
8. Everyone used the same _____
9. No controls or audit trail over input or changes



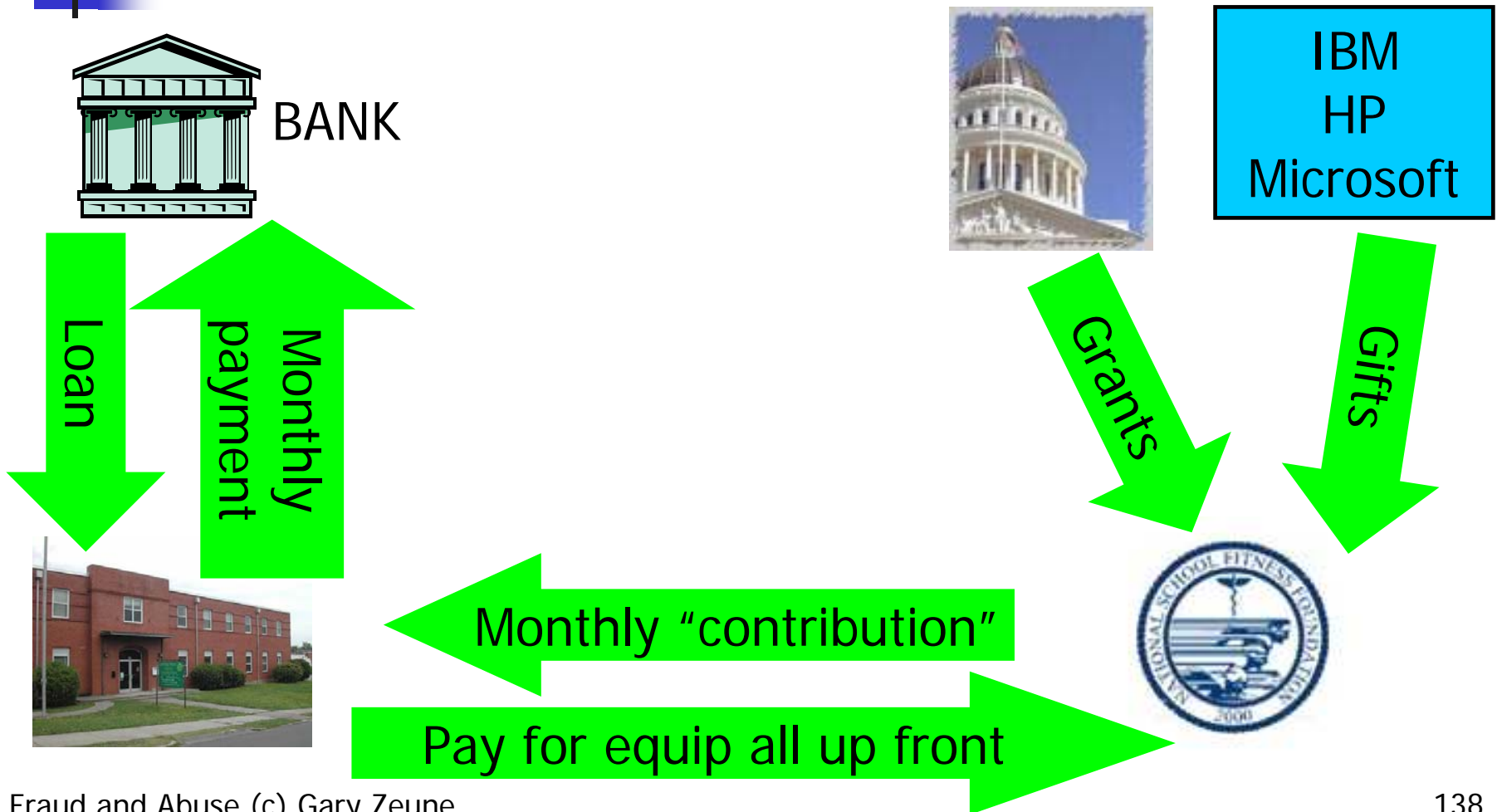
National School Fitness Foundation

1. LIFT America FREE fitness equip
2. Eliminate school obesity
3. LOTS of positive press
4. Wisc Gov Jim Doyle included NSFF in his state of state announcing \$5 million contribution
5. Minn 19 schools \$7+ million
6. Utah 130+ schools



American Fork High football players work out on equipment purchased from the National School Fitness Foundation, which filed for bankruptcy last month.
Jason Olson, Desert Morning News

NSFF Structure





NSFF Qualifications

1. 1,800sf
2. Adequate staff
3. Implement LIFT America curriculum
4. Track and report fitness data to NSFF, who will pass it along to corporate 'partners'
5. Strength and aerobic machines, trainers, kiosks
6. Schools encouraged to open to public and charge

NSFF Paul Gottfredson, Business Administrator



South Sanpete School District, paul.gottfredson@ssanpete.k12.ut.us

- I was initially one of the biggest skeptics and almost had to be forced to agree to this program.
- It has been wonderful. They haven't missed anything they said they would do.
- We very carefully examined the lease agreement. It seemed a reasonable price so that even if the NSFF were to fail to repay us we would still have a reasonable purchase agreement.
- Our attorney examined the agreement and it was approved by our School Board.



National School Fitness Foundation

1. May 2004 NSFF announced can't make payments
2. 'Alleged' \$80 million Ponzi scheme
3. 600+ schools in 20 states
4. Schools knew NSFF maybe couldn't make payments
5. Equip worth \$75,000 but paid NSFF \$200k to \$250k
 1. Schools had to pay for all equip _____
6. Schools didn't get competitive bids
7. "Royalty payments" from schools were 99.8% of NSFF revenue
8. Minn alleges securities, mail and wire fraud



NSFF.....Questions

1. Did anyone check with _____???
2. Did NSFF management know that what it was doing is _____???

Government Revenue Southtowne Center



1. Popular tourist destination
2. Combine museum, theater, information center
3. Official Southtowne 'guide'
4. Asst manager had color copier
5. Lunch-hour cashier
6. Made his own copies
7. Brochures ordered and counted
8. Asst manager in car wreck
9. Brochure sales went _____

Transfer Payments

Benefits, Claims and Grants



1. Difficult fraud
2. Redistribution of wealth
3. Some outright grants, but mostly means-tested
4. Some collusion, but real problem is people's honesty
5. Mechanics of redistribution is gov't controlled
6. Private companies make payments on behalf of gov't
 - If flat rate, where's the incentive to check claims
7. Continuous legislative changes make claims hard to validate

Transfer Payments

Key Risks and Controls



1. Risks

- Payment of completely invalid claim
- Overpayment of valid claim
- Nonpayment of valid claim

2. Organizational controls

3. Case management controls

Transfer Payments Organizational Controls



1. All claims relating to one person or entity should be cross-referenced
2. Separation of duties: no single official should process and authorize a complete claim
3. Cases should be checked by management
4. Case numbers should be issued in sequence as soon as a claim is received or generated
5. Adequate staff/supervisors maintained
6. Investigative staff
7. Returned checks should not go to originator

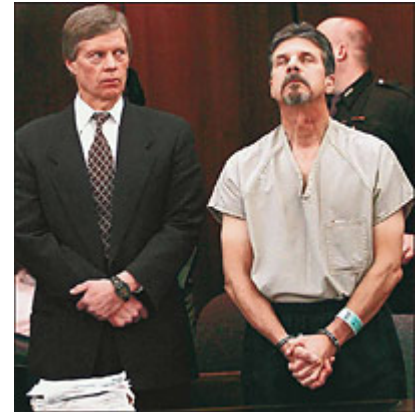
Transfer Payments Case Management Controls



8. Analytic trends
9. Operating instructions/manuals that are understood, relevant and up to date
10. Complete case files
11. Award notification should be fully recorded and independent of processing
12. Changes in circumstances
13. Follow-up visits
14. Termination procedures

Jesse Oddi

1. Clerk of Courts
2. 49 criminal charges stealing fines
3. Served 5+ of 6 years
4. \$448,621 over 13 years
5. Sold house for \$270,000
6. Two employees
7. Video camera





CPAs Aid Union Fraud



1. Frank J. Massey, 50, partner, Thomas Havey LLP
2. Audits 700+ union-bargained benefit plans
3. International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers
4. 140,000 members
5. 1992 to 1999 helped hide \$1½ million in personal expenses of 6 union bosses on LM-2
 - Office/administrative to educational/publicity
 - 1995 DOL required details
6. www.havey.com

CPAs Aid Union Fraud



1. Alfred S. Garappolo, CPA, pleaded guilty to helping an iron workers union bookkeeper conceal her embezzlement of payroll checks from a training fund
2. "In the age of Enron, this is evidence that loose accounting practices extend beyond corporate America," Labor Department spokeswoman Sue Hensley said.
3. "Our firm deeply regrets any harm resulting from the actions taken by our former partner Mr. Massey that led to his guilty plea today. His conduct is clearly unacceptable and completely deviates from the values and code of conduct at Thomas Havey LLP."

Roslyn, NY Schools

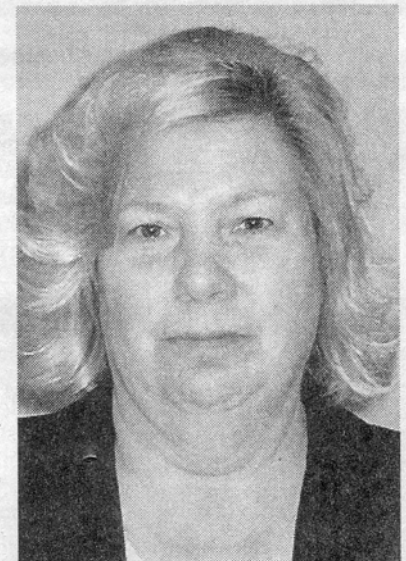


1. Budget grew 40% last 4 years
2. \$11.2 million
3. 98% of grads attend college and few need aid
4. Miller, Lilley & Pearce is now _____
5. Audited 53 districts
6. "We now are aware of two school districts where this firm did not do its job. It is disconcerting that this firm was supposed to be the fiscal watchdog at 53 school districts," Hevesi said.

Roslyn, NY Schools



1. Concorde to England
2. Mortgage payments on Fla. homes
3. \$1 million ATM withdrawals
4. NY auditors 57,000 checks over 8 yrs
5. Super Frank Tassone \$2,407,965
6. Clerk Deborah Rigano \$334,452
7. Not traceable \$1,508,274
8. 26 others \$2,288,462



Pamela Gluckin
\$4,634,012