Agenda

- Risk Management
  - What can the organization do?

- Preventive Measures
  - How can I prevent fraud, waste, or abuse?

- Detective Measures
  - How do I know when FWA is occurring?

- Additional Resources

- Contact Information

- Ask Questions!
Introductions

- Marc W. Courey, CPA/CFF, JD, LLM, CFE, CCEP, CICA, CIA
  - Director, Risk Advisory and Forensic & Litigation Services
  - Wipfli LLP

- Audience
  - What is your role in your organization?
  - How would you describe your organization?
    - Staffing level
    - Internal controls
  - What are you looking for today?
    - New internal controls?
    - Have a particular concern about …
    - War stories (others are worse off than you)
Fraud Risk Management
Consciously Address Risk of Fraud, Waste, and Abuse

Ignore--------Insure------Accept------Manage

- Identify your risks
- Consider your organization’s purpose/perspective
  - Organizational objectives
  - Organizational operations
  - Established control activities
  - Risk appetite
- Consider how FWA occurs
  - And how it is prevented, detected, recovered
Risk Management

Fraud Triangle

Pressure

Opportunity

Rationalization
Risk Management

Understand that:

• FWA occurs in every organization
• Employees will steal
• Most occupational frauds are asset misappropriations
• Most perpetrators have never been charged or convicted
• Most perpetrators have never been punished or terminated
What is an internal control?

**COSO definition:** A process...designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations

Can be:
- Preventive
- Detective
- Both
Fraud Risk Management

Key weaknesses leading to fraud, waste, and abuse

• Lack of internal controls
  – Lack of policy and procedures

• Override of existing controls

• Lack of management review of existing controls
Preventive Measures

Internal control measures:

• Policies and procedures
  – Do you confirm policies and procedures are working?
• Segregation of duties
  – Job rotation
• Management review
• Surprise audits/internal audit
• Employee support/assistance programs
• Hotline
• Data analysis
• External audit
Preventive Measures

Organizational Policies

- Ethics statement
- Fraud policy
- Harassment/discrimination
- Acceptable use/expectation of privacy
- Conflict of interest
  - Disclosures
- Obligation to cooperate with investigations
- Background checks
- Communication to staff, stakeholders, clients
  - Frequency, importance
- Training, Training, Training (for staff on policies)
Preventive Measures

Segregation of Duties

- Approval
  - Initiation
  - Authorization
- Accounting
  - Recording
  - Reconciling
- Custody
  - Physical custody

Practical ways to achieve
- Be creative
- Cross-train and split responsibilities
- Focus on key duties
- Compensate with reviews
Preventive Measures

When it comes to cash

• Consider control alternatives in access to cash
  – Do you restrict or track all payments?
  – Vendor approval process
  – Controls around electronic transactions (ACH/wire)
  – Role of budget and budget responsibility
  – Consideration of risky and non-typical areas
    o Expense reimbursements
    o P-cards, organization credit cards
    o Gift cards
Preventive Measures

Miscellaneous opportunities

• Mandatory vacations
• Employee background and/or credit checks
  – Pre-employment
  – Ongoing for key roles
• Employee assistance/support programs
• Communication
  – Train, Train, Train
Preventive Measures

Remember that TRUST is **NOT** an internal control.
Detective Measures
Detective Measures

External Audits

- Financial reporting
- Regulatory requirements
- Not very effective for identifying fraud
  - Tend to be regularly scheduled
  - Focused on materiality
  - Financial statements not materially misstated
Detective Measures

Management Review

• Is an excellent control

• Needs to be meaningful management review

• Is viable alternative when SoD not achievable
  – Understand what you’re reviewing
  – Really review it
    o Entirely, and in context
  – Confirm recording/reporting of what you review
  – Ask questions now and then
    o Even if you know the answer
Detective Measures

Surprise Audits

• “Internal Audit” like (not external audit)
• Preventive as well as Detective measure
• Multiple objectives
  – Financial
  – Operational
  – Compliance
• To be effective
  – Truly must be unscheduled
  – Must be comprehensive (for the area/function being audited)
  – Need trained staff with access
  – Can be outsourced, co-sourced, or internally staffed
Detective Measures

Anonymous Reporting Mechanism ("Hotline")

• Must be anonymous
• Available 24 x 365
• Not just phone lines
  – Internet
  – Social Networking
  – Mail
• Establish a process for responding to reports
• Report to senior leadership on reports received
Detective Measures

Figure 21: Initial Detection of Occupational Frauds
Figure 33: Source of Tips

- Employee: 51.5%
- Customer: 17.8%
- Anonymous: 14.0%
- Other: 12.6%
- Vendor: 9.9%
- Shareholder/Owner: 2.7%
- Competitor: 1.6%
Detective Measures

Data Analytics

● What is it?
  • Application of tests against historical data
  • Where to look for the needles in the haystack

● Analyze all the data, no sampling
  • Sampling assumes a certain degree of risk
  • Utilize the data you already have
Detective Measures

Data Analytics meet multiple objectives

- Poorly designed processes
- Poorly implemented processes
- Errors
- Fraud risk
  - Preventive
  - Detective
Detective Measures

Data Analytics:

• Structured Data
  – Vendor/AP analysis/cash disbursements
  – Journal entries
  – Payroll/employee

• Unstructured Data
  – Excel
  – Word
  – Email
  – Smartphones, LinkedIn, Twitter, Facebook
Detective Measures

Data Analytics address fraud risk

- Detect unexpected results
- Uncover anomalies
- Least invasive
- Periodic or “continuous” testing
Questions & Answers
## Additional Resources

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<th>Websites</th>
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<td>Association of Certified Fraud Examiners</td>
<td><a href="http://www.acfe.com">www.acfe.com</a></td>
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<td>Transparency International (Corruption Perception Index)</td>
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<td>The Institute of Internal Auditors</td>
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<td>Open Compliance and Ethics Group</td>
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<td>International Association of Financial Crimes Investigators</td>
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<td>Society of Corporate Compliance and Ethics</td>
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<td>Chartered Institute of Management Accountants</td>
<td><a href="http://www.cimaglobal.com">www.cimaglobal.com</a></td>
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<td>ASIS International</td>
<td><a href="http://www.asisonline.org">www.asisonline.org</a></td>
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<tr>
<td>The Serious Fraud Office (UK)</td>
<td><a href="http://www.sfo.gov.uk">www.sfo.gov.uk</a></td>
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<tr>
<td>Information Systems Audit and Control Association</td>
<td><a href="http://www.isaca.org">www.isaca.org</a></td>
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<tr>
<td>U. S. Department of Justice</td>
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Marc W. Courey, CPA/CFF, JD, LLM, CFE, CICA, CCEP, CIA
Director – Risk Advisory and Forensic & Litigation Services
O: 651.766.2849; C: 612.868.1081
mcourey@wipfli.com