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CSMFO ANNUAL CONFERENCE



Identifying Fraud in Government

CROSSING THE LINE

THE JUDGES



Debby Cherney, CPA, MBA

Deputy General Manager, Eastern Municipal Water District

EMWD provides water and wastewater services to a population of 785,000 people in Western Riverside County. In her capacity as Deputy General Manager, Debby has oversight responsibility over all of the Administrative Services functions of the District.

Jennifer Farr, CPA, MBA

Shareholder, Mayer Hoffman McCann P.C.

Jennifer has been with Mayer Hoffman McCann for the past 17 years focusing on local government and nonprofit auditing. Jennifer is the Attest Practice Leader of the Orange County Office. She is responsible for developing the local government audit methodology and training for the National office.



Margaret Moggia, CPA, CGMA

Chief Financial Officer, West Basin Municipal Water District

Margaret oversees accounting, treasury, debt management, procurement, information technology and serves as on the steering committee for records management and as a lead to develop a small business enterprise program. Prior to the District, Margaret worked at Coopers & Lybrand focusing on governments and nonprofit audits.



TODAY'S ANALYSIS

- ✖ Recent Government Fraud
- ✖ Who Does Fraud Impact?
- ✖ Detection Techniques
- ✖ Prevention Techniques
- ✖ Top 10 Warning Signs



DID THEY CROSS THE LINE?

HOW RITA CRUNDWELL EMBEZZLED MORE THAN
\$50 MILLION FROM HER ILLINOIS TOWN

DRAINING DIXON

HELLO
I AM...
SUING YOU

DID THEY CROSS THE LINE?



DID THEY CROSS THE LINE?



DID THEY CROSS THE LINE?



DID THEY CROSS THE LINE?



WHO IS IMPACTED BY FRAUD

- ✖ City Council or Board of Directors
 - + Increased amount of questions and scrutiny of their actions or inactions
 - + Questions may be raised about appropriate oversight of their fiduciary responsibility
 - + Communicating effectively the real and/or the perceived fraud of the use of public funds

WHO IS IMPACTED BY FRAUD

✗ The Public Employee

+ The Executive Leader

- ✗ What “tone at the top” message is being made and how is being responded to
- ✗ Implement meaningful changes
- ✗ Communicating the message about the real or perceived fraud

+ The Staff

- ✗ Developing and/or revising internal control procedures
- ✗ Developing new forms
- ✗ Additional workload and questions from interested third parties
- ✗ Communication Strategy

WHO IS IMPACTED BY FRAUD

✗ Professional Relationships

+ Auditors

- ✗ Additional audit procedures to evaluate internal controls
- ✗ More intense scrutiny during the audit period

+ Attorneys

- ✗ What additional policies are necessary to govern the city/agency
- ✗ Address the legal side of the fraud

WHO IS IMPACTED BY FRAUD

✗ The Public

+ Citizens and rate payers

- ✗ Loss of trust in city/agency

+ Community Based Organizations

- ✗ Partnerships may be strained and the common goals to move forward are stalled

+ Government Oversight Agencies

- ✗ Creates additional reporting requirements to address public outcry



FRAUD DETECTION TECHNIQUES

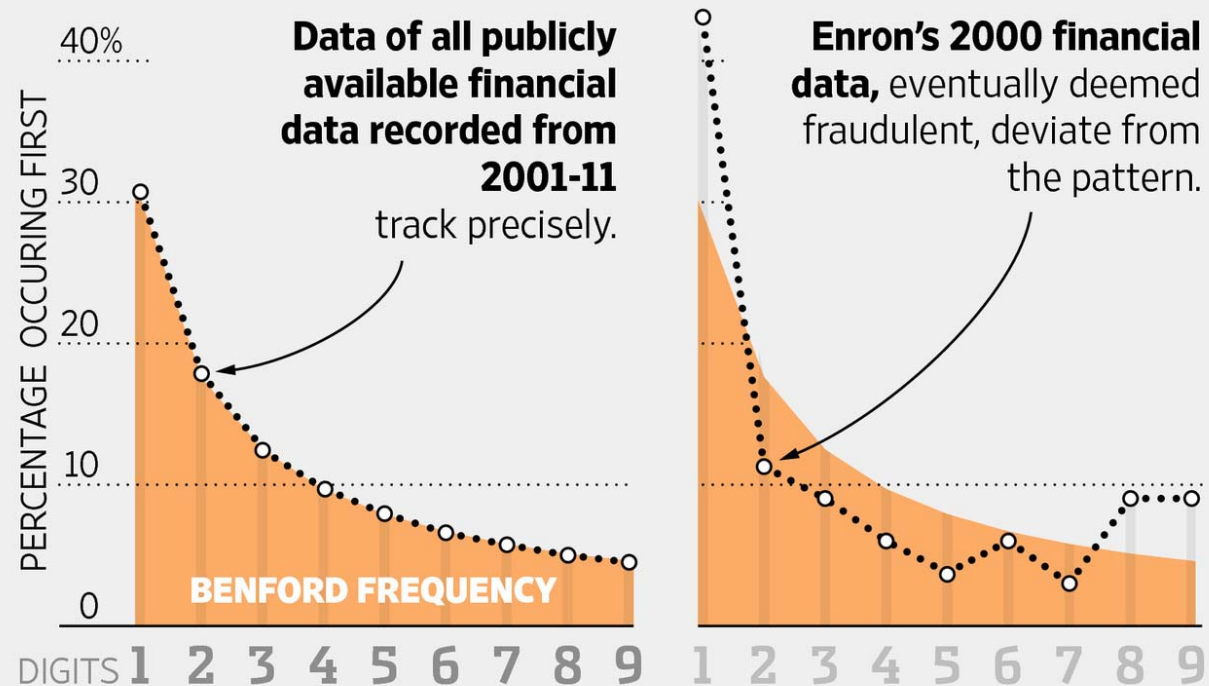
- ✗ A financial statement audit is not designed to detect fraud
- ✗ What can you do to detect fraud at your organization?



BENFORD'S LAW

Who's No. 1?

Benford's Law expects 30.1% of numbers in a list of financial transactions to begin with '1.' Each successive digit should represent a progressively smaller proportion. Below, orange indicates the expected Benford frequencies. When digits stray from the pattern, fraud may be to blame.



Source: Dan Amiram, Columbia University

The Wall Street Journal

BANK ACCOUNT ACTIVITY

- ✖ Comparison of checks per the bank statement to checks recorded in the general ledger
 - + Would your bank reconciliation catch this?
 - + Who is reviewing the bank reconciliation?

VENDOR MANAGEMENT

- ✖ Who can add new vendors to your system?
- ✖ Comparison of Vendor vs. Employee addresses



PREVENTION TECHNIQUES

- ✗ Organizational Tone: Values, Beliefs, Ethics
- ✗ Background Checks
- ✗ Education
- ✗ Hotlines
- ✗ Internal Audit Functions
- ✗ Consequences =
Deterrence Effect



WARNING SIGNS

- ✗ Doesn't take holidays/time off
- ✗ Unusual amount of control for their position
- ✗ Refuses promotion or position changes
- ✗ Excessive lifestyle
- ✗ Defense mechanisms
- ✗ Overstated expense reimbursements
- ✗ Accounts not reconciled to subsidiary records
- ✗ No financial issues in area they are responsible for
- ✗ Secrecy
- ✗ Excessive journal entries using balance sheet accounts

QUESTIONS

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