



State of New York Office of the State Comptroller Office of Operations Spring Training Event

Fraud Red Flags

Linda Giovannone
Roz Watrobski

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The image features a clear blue sky as the background. Several red flags are waving on black poles, with the largest flag in the foreground being the most prominent. The word "FRAUD" is written in a large, white, serif font with a subtle drop shadow, positioned in the upper right area of the image.

FRAUD

Fraud in perspective

- Occupational Fraud 2006

A study conducted by the Association of Certified Fraud Examiners (ACFE) consisting of 1,134 cases of occupational fraud found the median length of time of the fraud scheme was 18 months.

Definition

Occupational Fraud:

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

What is fraud?

- Misstatement
 - Mistake v Fraud
- Knowledge of falsehood/Intent
- Reliance
- Damage

How does fraud happen?

- Pressure or Motive
- Opportunity
- Rationalization

Red Flags

- A warning or sense that something isn't right
- Should lead you to take a closer look at the transaction



Personal flags

- Weak ethics
- Wheeler-dealer personality
- Lack of stability
- Strong desire to beat the system
- Significant behavior changes
- Inadequate income for lifestyle

Personal flags

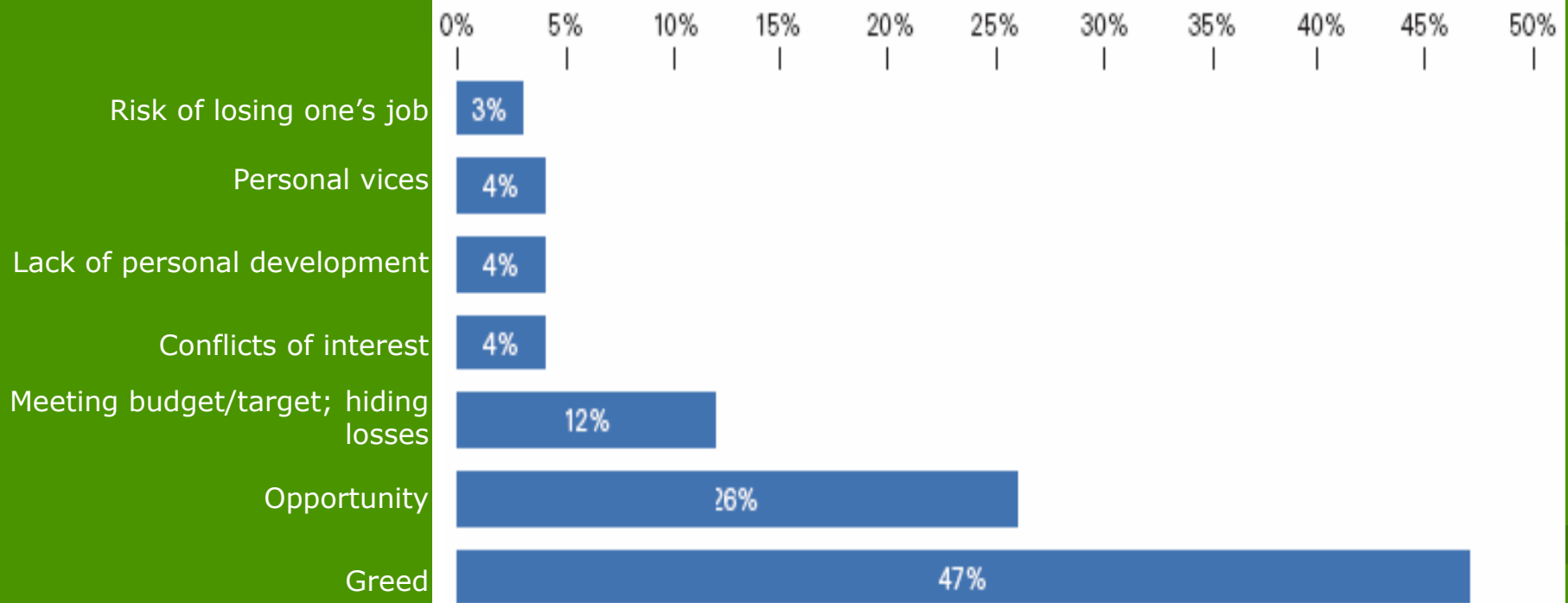
- Highly material personal values
- Success equated with \$
- Highly self-centered
- Conspicuous consumers
- Careless with facts
- Hostile
- Exempt from accountability

Personal flags

- Demand loyalty
- Have few real friends
- Inconsistent, vague or implausible responses
- Schmoozer
- Employee has outside business

Fraudster's Motivation

Fraudster's overriding motivation



Source: KPMG Profile of a Fraudster
Survey 2007

Pressure Flags

- High debt
- Significant financial losses
- Excessive alcohol, drugs or gambling
- Extramarital affair
- Perceived organizational inequities
- Job frustration or resentment

Pressure Flags

- Peer group pressures
- Fear loss of status
- Single parent
- College tuition
- Sick family member

Opportunity Flags

- Familiarity with operations
- Ability to override controls
- No periodic rotation of key employees
- No uniform personnel policies

Opportunity Flags

- Not independently verifying delivery or pricing
- Lack of segregation of responsibilities
- Organizations with no fraud training program
- Dishonest or dominant management

Opportunity Flags

- Management does not emphasize the role of strong internal controls
- Management does not prosecute or punish fraud perpetrators
- Lack of independence of the Internal Audit function
- Operating in crisis mode

Opportunity Flags

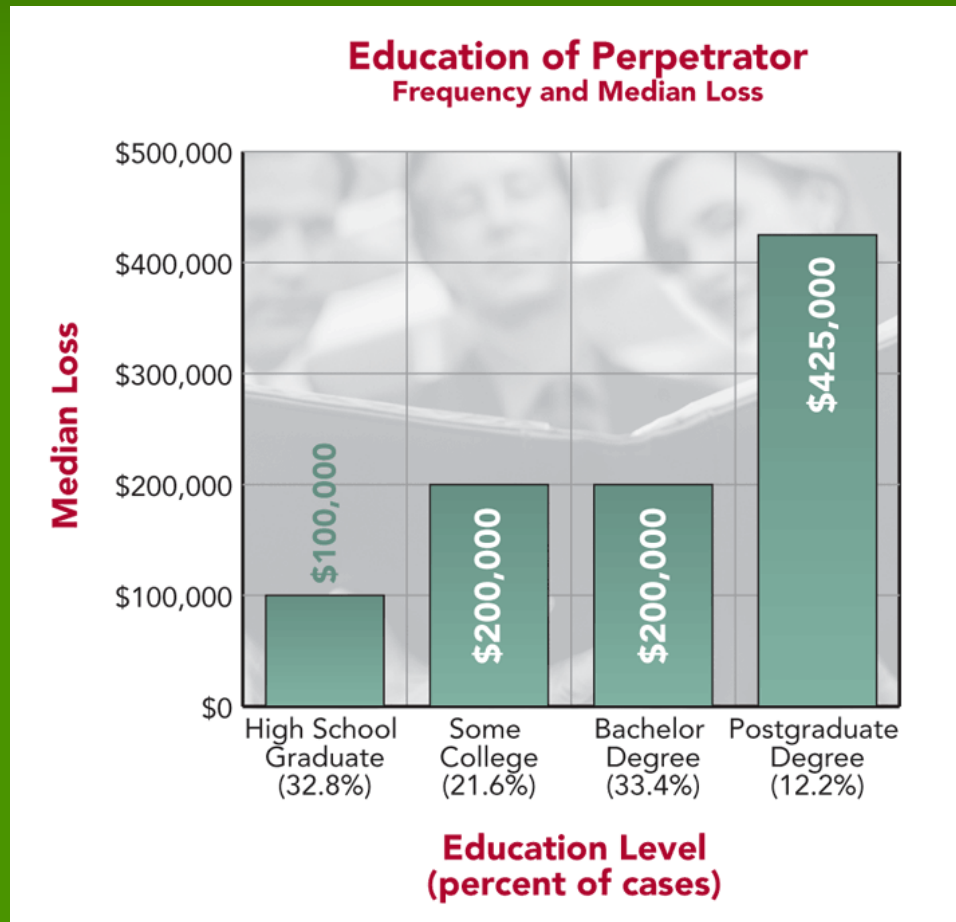
- Close association with vendors
- Vendor invoice going anywhere other than accounts payable
- No documents to support invoices
- Not independently verifying delivery or pricing

Rationalization Flags

- They owe me
- I'm overworked
- I do the work of two people
- They'll never miss it
- I'll just borrow it
- I'm not really hurting anyone
- Everyone is a little dishonest

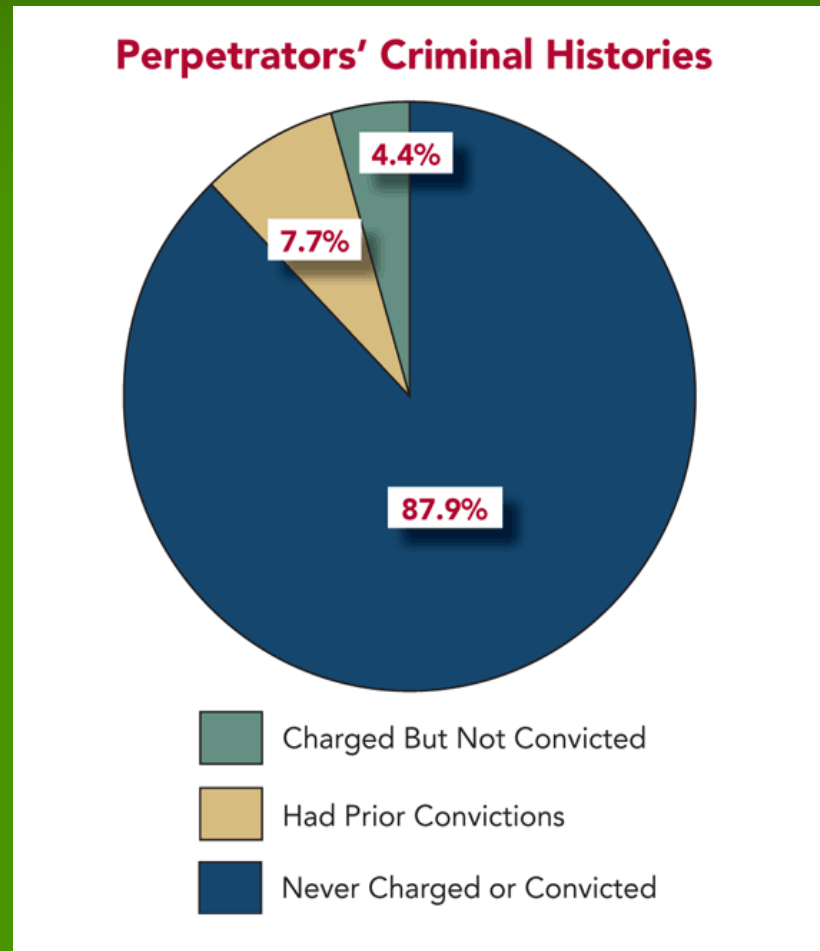
Profile of Occupational Fraudster

Education Level



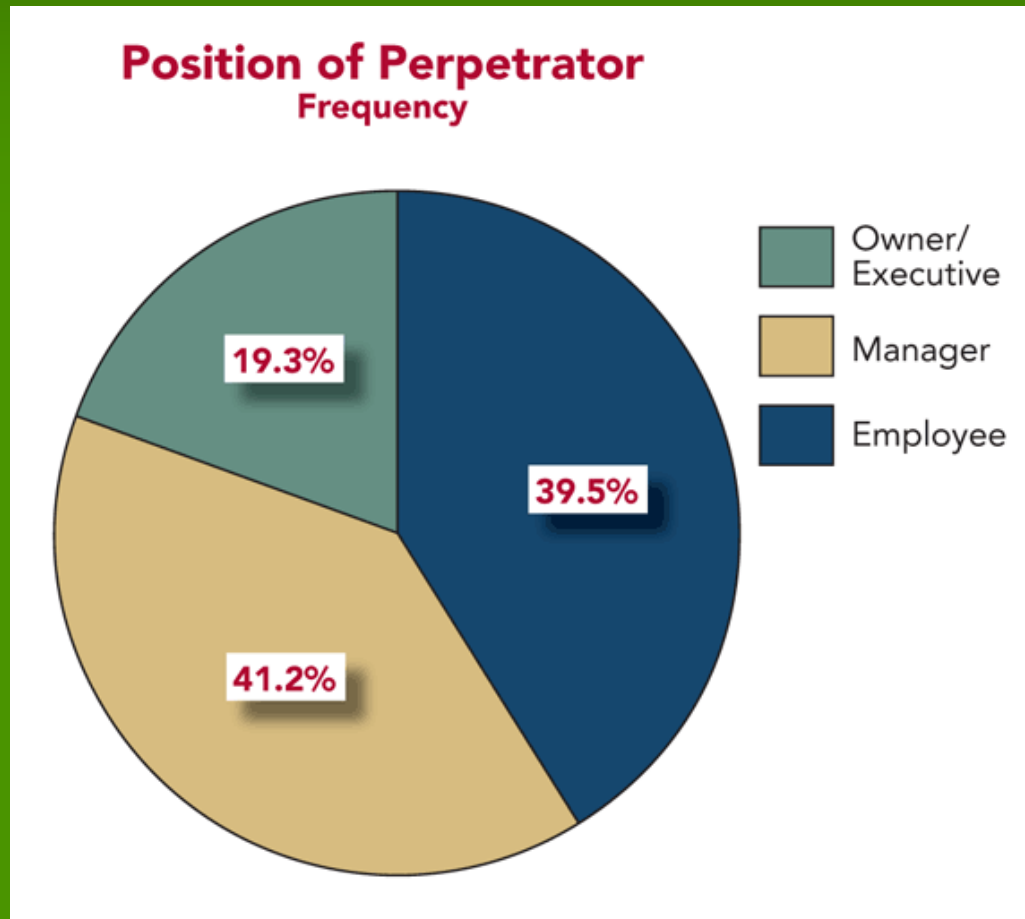
Source: 2006 Report to the Nation on
Occupational Fraud and Abuse

Criminal History



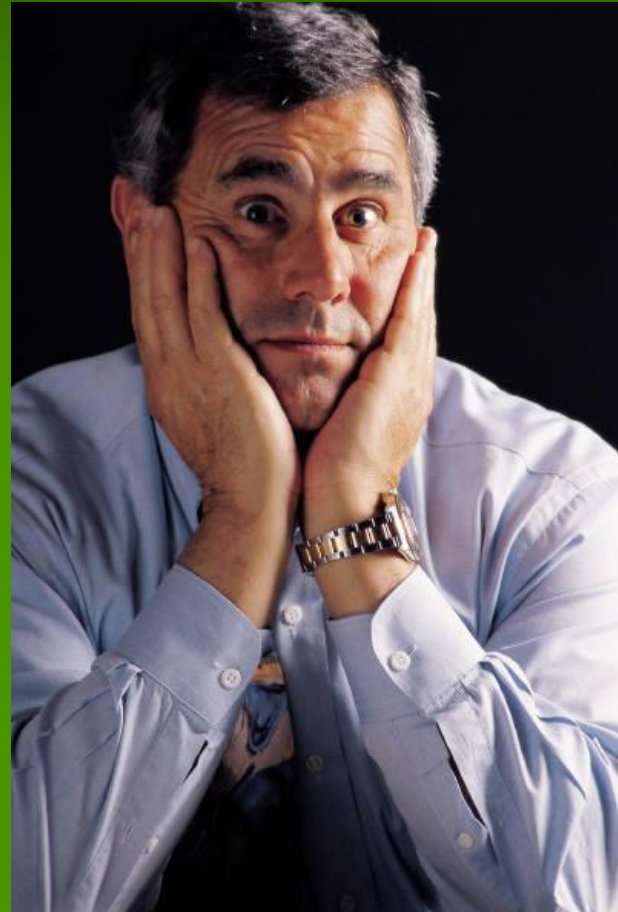
Source: 2006 Report to the Nation on
Occupational Fraud and Abuse

Position in Organization



Source: 2006 Report to the Nation on
Occupational Fraud and Abuse

- Race
- Gender
- Age
- Education
- Criminal History
- Occupation
- Tenure
- Salary



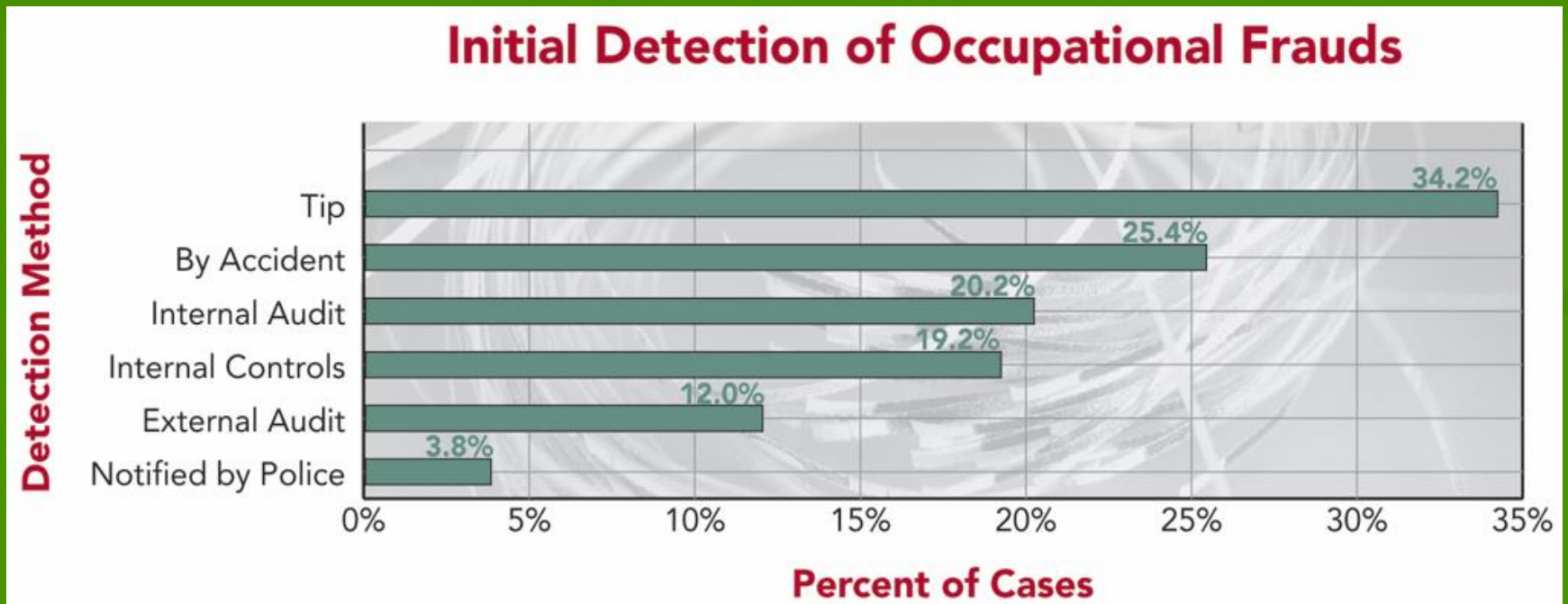
Fraudster Details

In 91 percent of profiles the perpetrators did not leave it at one single fraudulent act, but committed repeated acts of fraud.

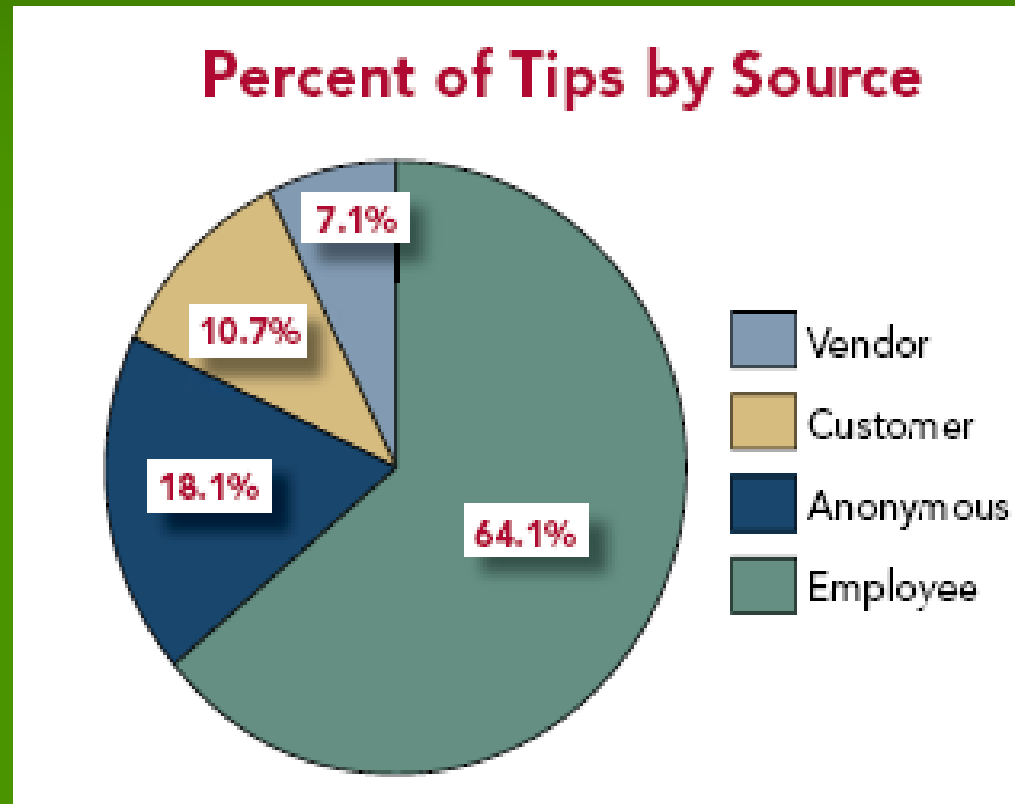
Fraud Detection

The background is a solid green color. In the lower right quadrant, there are several overlapping, wavy, horizontal lines in a slightly darker shade of green, creating a sense of motion or a stylized landscape feature like a hill or a wave.

Fraud Detected By:



Source of Tips



Source: 2006 Report to the Nation on
Occupational Fraud and Abuse

Document Flags

- Missing documents
- Inadequate, copied or apparently altered documents
- Homemade invoice
- No letterhead

Document Flags

- PO Box, suite number, mail drop address
- Multiple addresses for a single vendor
- No phone number or fake phone number
- No TIN

Document Flags

- Unknown company name
- Company name includes initials or personal name
- Misspellings on document

Document Flags

- Vague information
- No supporting documentation
- Higher than usual quantities ordered
- Unusual items ordered

Document Flags

- Sequentially numbered or inconsistently numbered invoices
- Recurring identical amounts from same vendor
- Round amounts or amounts under approval levels
- Increased amounts to vendor for no apparent reason
- Unexplained items on reconciliations

Contracting Flags

- Restrictive specifications
- Low number of bidders
- Regular bidders don't bid
- Bids/quotes received from the same fax number around the same time
- Similar letterheads of bidders
- Large difference in bid amounts

Inventory Flags

- Missing inventory or assets
- Unrestricted access to inventory
- No minimum, maximum or reorder levels for inventory
- Lack of regular physical inventory counts

Other Flags

- Unwillingness to provide needed data
- Missing data
- Managers regularly do subordinate duties
- Chronically low morale
- Limited access to people
- Unusual delays in providing information

Shell Company Flags

- You have never heard of this company
- Company receives many small dollar payments
- Company name includes initials or personal name
- Company sells intangible services – difficult to confirm

Shell Company Flags

- No phone number or fake phone number on invoices
- Address is a post office box or suite number
- No receiving reports

Bribes and Kickbacks Flags

- Unjustified favoritism of a certain vendor
- Unexplained increase in wealth of employee

Conflict of Interest Flags

- Unexplained or unusual favoritism of particular vendor
- Close socialization with and acceptance of inappropriate gifts
- Vendor address or identification number matches employee's personal information
- Employee declines promotion or job movement from current job

Travel and Expense Reimbursement Flags

- Altered or fake receipts (document flags)
- Questionable address
- Consistently over per diem allowances
- Business or first-class instead of coach
- Receipts continuously for the same place
- High airline prices



Credit Card Flags

- Personal type of purchases vs. business-related
- Shipping address differs from billing address
- No reconciliation of credit card charges
- Larger than normal order



Medical Fraud Flags

- Gender specific drugs/services billed for the wrong gender
- Bills for services that couldn't realistically be done in certain time frame
- Unbundled services

What If You Suspect Fraud?

- Why don't people report their suspicions?

What If You Suspect Fraud?

- Supervisor
- Internal Auditor
- State Comptroller
 - (888)OSC-4555
- State Inspector General
 - (800)DO-RIGHT

Report Detailed Information

- Describe the alleged wrongdoing
- Identify when the alleged wrongdoing started and if it's still occurring
- Identify who may be involved
- Identify other potential witnesses or victims

Report Detailed Information

- Identify who you may have already notified (i.e., supervisor or other agency/personnel or law enforcement)
- Describe what evidence is available and where it can be found
- Identify what laws or agency regulations have been violated, if known

Encourage Fraud Reporting

- Conduct anti-fraud training to educate employees on how to recognize and report illegal conduct
- Maintain open lines of communication among employees and management to bring questionable conduct to light before it develops into outright illegal activity
- Impress upon employees that fraud acts will not be tolerated

QUESTIONS



Contact Us

Linda Giovannone, CIA, CGAP

Auditor-in-Charge

lgiovannone@osc.state.ny.us

(518)486-6492

Roslyn Watrobski, CFE, CIA, CGAP

Audit Supervisor

rwatrobski@osc.state.ny.us

(518)402-4228