

Red Flags for Fraud

Presented By:
Laird Petrie, Associate Examiner



NYS COMPTROLLER
THOMAS P. DiNAPOLI

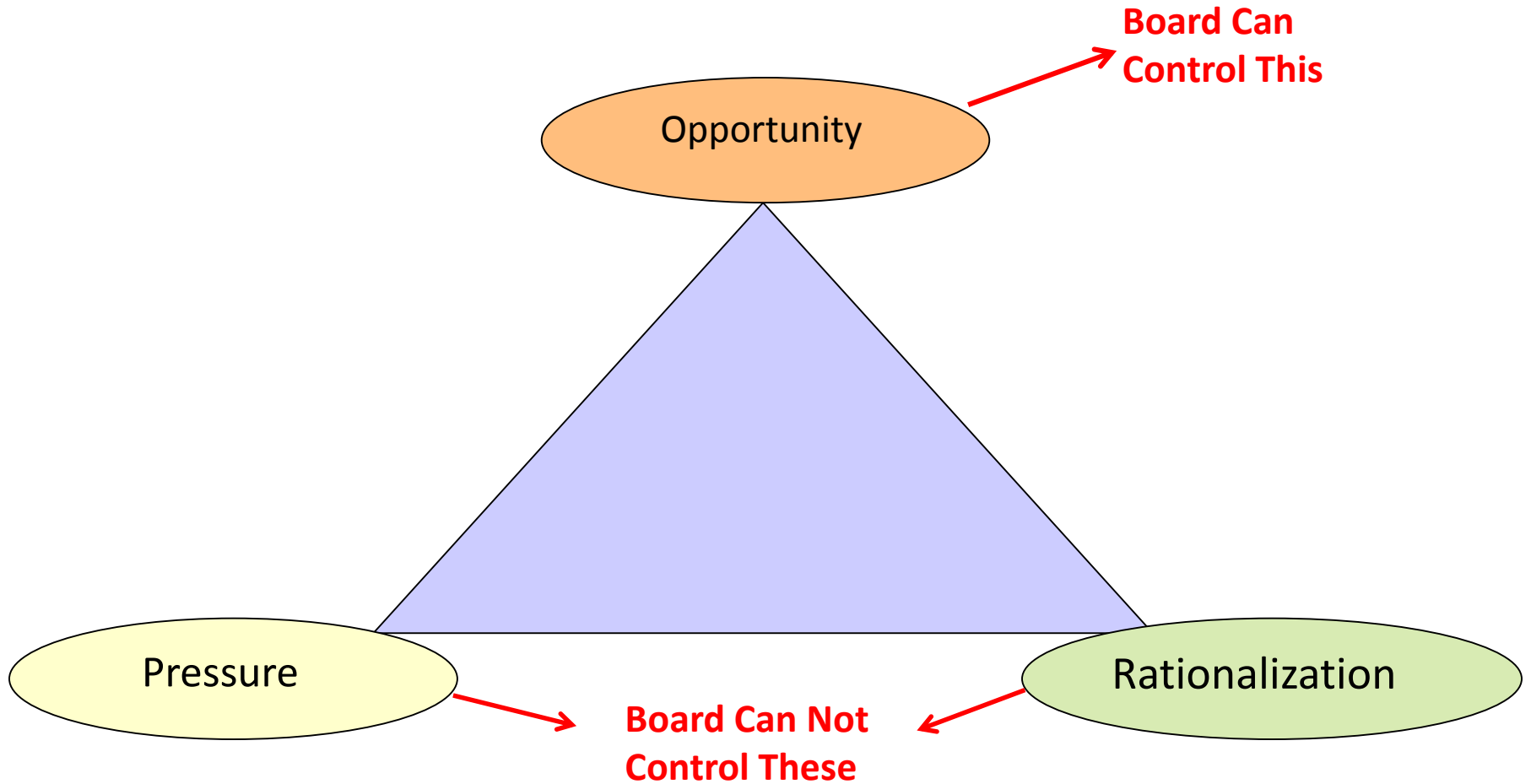
What is Fraud?

An illegal act involving the obtaining of something of value through willful misrepresentation.



NYS COMPTROLLER
THOMAS P. DiNAPOLI

The Fraud Triangle



2015 - 2017 SHORTAGES / FRAUD REPORTS

<http://www.osc.state.ny.us/localgov/audits/typeindex.htm>

- 28 reports issued totaling \$944,686
 - Wallkill Fire District (2015M-39), Chief & wife - \$254,532
 - Buffalo City SD (2014M-270), AV Tech.- \$180,000
 - Town of Beekman (2015M-41), Comptroller - \$149,219
 - Spencer VFD (2015M-114), Treasurer - \$69,705
 - Town of Ellery (2014M-269), Court Clerk - \$66,636,
 - Town of Cohocton (2014M-235), Town Clerk - \$38,136
 - Town of Alexandria (2015M-159), Town Clerk - \$36,742
 - Town of Elicott (2015M-111), Court Clerk - \$34,443
 - Village of Savona (2015M-328), Mayor & Treas - \$27,249



NYS COMPTROLLER
THOMAS P. DiNAPOLI

Board Oversight Responsibilities

- Safeguard Government Assets
 - Develop adequate internal Controls
 - *Policies and procedures*
 - *Preventative and detection controls*
 - Monitor Adopted Policies
 - Perform Periodic Risk Assessments
 - Perform an Annual Audit of Records



INTERNAL CONTROLS

- Preventative



- Detection



Policies & Procedures

- Investment Policy
- Procurement Policy
- Credit Card Policy
- Travel Reimbursement Policy
- Code of Ethics
- Cash Receipt and Disbursement Procedures



Perform a Risk Assessment

- The identification and analysis of opportunities that exist for the loss or misuse of municipal assets
 - An ongoing monitoring process
 - Determine how much risk you are willing to accept (cost/benefit analysis)
 - Initiate policies or actions to address risks
 - Prevention and Detection Controls



WHERE ARE ASSETS MOST AT RISK?

- Cash (receipts and disbursements)
 - Segregation of duties
- Capital Assets (equipment)
 - Physical inventories
- Materials and supplies
 - Perpetual inventories / reconciliations
- Data and sensitive information



SAFEGUARDING CASH

- Are duties relating to cash receipts sufficiently segregated?
 - Does the same person who receives cash also make deposits and record entries?
 - Who opens the mail?
 - Is a daily cash receipt log maintained?
 - Is cash deposited frequently?
 - Is a safe used?
 - Are duplicate receipts provided?
 - Are inventories reconciled to cash receipts records (permits, garbage stickers, etc)?



SAFEGUARDING CASH

- Are duties relating to cash disbursements sufficiently segregated?
 - Does the same person who signs checks also record entries?
 - Are signature procedures adequately controlled?
 - Is check stock controlled and sequences monitored?
 - Is online banking allowed?
 - Are confirmations required?
 - Is a dedicated wireless computer used?



SAFEGUARDING CASH

- Bank Reconciliations
 - Are they performed on a timely basis, documented and available for review?
 - Does the bank balance agree with accounting records?
 - Who reconciles the bank account?
 - Is it someone independent of cash duties?
 - Does anyone verify it?
 - Do balances support liabilities (clerks, justices)?

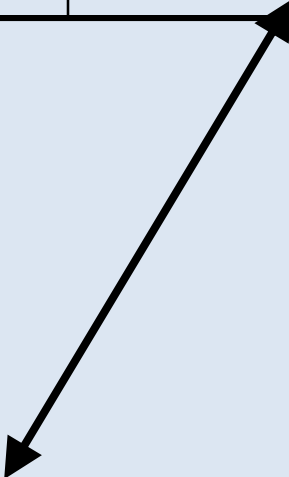


Bank Balances @ 9/30/17

Acct #	Bank Balance	Add: Deposits in Transit	Less: Outstanding Checks	Adjusted Balance
80123	\$1,245.89	\$4,500.00	\$5,678.98	\$66.91
80234	\$56,890.00	0	12,567.89	\$44,322.11
80345	\$36,890.45	\$56,000.00	\$4,567.89	\$88,322.56
Total				\$132,711.58

Book Balances @ 9/30/17

A200	\$ 13,459.18
A201	\$ 54,456.24
H201	\$64,796.16
Total	\$132,711.58



Reconciliation of Balances & Liabilities

Balance per bank @9/30/17	\$2,500
Add: Deposits in transit	\$100
Less: Checks not cleared	(\$190)
Adjusted balance per bank:	\$2,410
Balance per cash book @9/30/17	\$2,410

Liabilities @ 9/30/17	
Due to DEC	\$1,340
Due to Supervisor	\$746
Due to NYS Dept. of Health	\$324
Total Liabilities @ 9/30/17:	\$2,410

SAFEGUARDING CAPITAL ASSETS

- Are capital asset records maintained?
- Are asset tags used?
- Are unannounced physical inventories conducted by someone independent of purchasing and recording?
 - Focus on assets that can be converted to personal use.



SAFEGUARDING MATERIALS & SUPPLIES

- Diesel and gasoline
 - Are usage records maintained?
 - Are perpetual inventory records maintained and reconciled to usage records?
 - Are significant differences investigated?
 - Is access to tanks restricted / controlled?
 - Are the locations of tanks well lighted and visible from the street?
- Other materials & supplies
 - Are inventories adequately secured?



Reconciliation of Fuel Inventory Records

Ending Level @ 8/31/16		250 gallons
Add: Delivery 9/5/16	720 gallons	
Delivery 9/17/16	565 gallons	
Total Fuel Available for use		1,535 gallons
Less: Recorded fuel use		1,275 gallons
Expected Level @ 9/30/16		260 gallons
Actual Level @ 9/30/16		240 gallons
Difference		(20 gallons)

SAFEGUARDING DATA

- Is access to server and computer workstations controlled?
- Are user access rights appropriate for job duties?
- Are passwords appropriate and required to be changed periodically?
- Are audit logs maintained and monitored?
- Are networks and wireless connections secure from unauthorized access?
- Are backups performed, tested and kept in a secure area?



The Annual Audit Requirement

“Fraud and Falsehood dread examination. Truth invites it”.

Samuel Johnson

- It is the responsibility of the governing board to conduct an audit (or contract for an audit) of the records and reports of all employees and officials who disburse and receive cash on behalf of the municipality.
 - Town Law §123
 - Village Law §4-408(e)
 - Uniform Justice Court Act §2019(a)



NYS COMPTROLLER
THOMAS P. DiNAPOLI

What is an Audit?

- The definition of audit is “To Examine”
- As part of the annual audit, the board may examine:
 - Accounting Records
 - Dockets (Justices)
 - Receipts
 - Warrants or Abstracts
 - Vouchers
 - Bank statements and canceled checks
 - Monthly/Annual reports



When Should the AUDIT Be Done?



- Shortly after year-end
- More frequently?
 - Spot Checks
 - As Need Arises



Annual Audit Check List

- LGMG - *Fiscal Oversight Responsibilities*
 - Chief Fiscal Officer
 - Town Supervisor
 - Village Treasurer
 - Town Clerk
 - Tax Collector
 - Justices
 - Other Departments



Appendix C – General Recordkeeping Requirements for Chief Fiscal Officers continued

Checklist for Review of Chief Fiscal Officer's Records

Determine the types of funds in use, and whether separate cash receipts and disbursements books are maintained for the various funds or whether a single cash receipts and single cash disbursements book is maintained. The following checklist can be used for each fund maintained.

Cash Receipts	YES	NO
Is the cash receipts journal up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>
Is the cash receipts journal maintained in a manner that identifies the date received, payer, purpose and the amount either individually or totals referenced to subsidiary receipt records (e.g., water rents receipts register)?	<input type="checkbox"/>	<input type="checkbox"/>
Are un-deposited cash receipts safeguarded?	<input type="checkbox"/>	<input type="checkbox"/>
Are duplicate deposit slips kept?	<input type="checkbox"/>	<input type="checkbox"/>
Do deposit amounts agree with cash receipt amounts?	<input type="checkbox"/>	<input type="checkbox"/>
Are deposits made timely and recorded up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>
<i>Last Recorded Deposit: Date _____ Amount _____</i>		
Is the cash receipts journal totaled and summarized monthly?	<input type="checkbox"/>	<input type="checkbox"/>

Cash Disbursements	YES	NO
Is the cash disbursements journal up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>
Is the cash disbursements journal maintained in a manner to identify amounts disbursed either individually or totals referenced to abstracts or payrolls?	<input type="checkbox"/>	<input type="checkbox"/>
Are pre-numbered checks used for all disbursements (other than petty cash)?	<input type="checkbox"/>	<input type="checkbox"/>
Are all checks signed by the chief fiscal officer and co-signed if required?	<input type="checkbox"/>	<input type="checkbox"/>
If checks are signed electronically, is the signature stamp or software in the custody and control of the chief fiscal officer?	<input type="checkbox"/>	<input type="checkbox"/>
Are canceled checks or check images returned with bank statements and maintained on file?	<input type="checkbox"/>	<input type="checkbox"/>
Are all unused checks properly controlled (blank check stock)?	<input type="checkbox"/>	<input type="checkbox"/>
Are checks recorded up-to-date?	<input type="checkbox"/>	<input type="checkbox"/>
<i>Last Recorded Check: # _____ Date _____ Amount _____</i>		
Is the cash disbursements journal totaled and summarized monthly?	<input type="checkbox"/>	<input type="checkbox"/>
Are payments supported by appropriate documentation? Consider comparing a sample of disbursements with supporting documentation.	<input type="checkbox"/>	<input type="checkbox"/>

Watch for Red Flags



Indicators that something is out of the ordinary

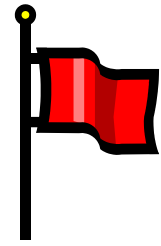


Red Flags are warnings and should not be ignored

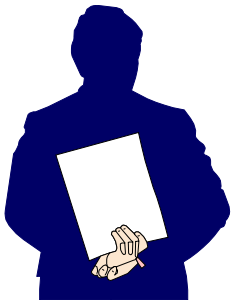


NYS COMPTROLLER
THOMAS P. DiNAPOLI

Management Red Flags

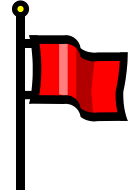


- Reluctance to provide information to Board Members
- Excessive number of checking accounts
- Excessive number of year-end transactions
- Missing Records



NYS COMPTROLLER
THOMAS P. DiNAPOLI

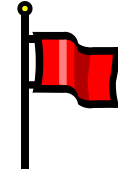
Employee Red Flags



- Lifestyle changes
- Credit problems
- Behavioral changes
- Refusal to stay home (vacation or sick leave)



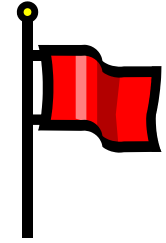
Red Flags in Cash Collection & Accounts Receivable



- Duplicate cash receipts not being issued or issued out of sequence
- Significant decreases in “cash” revenues
- Large number of write-offs of accounts
- Taxpayer complaints about non-payment notices
- Discrepancies between bank deposits and postings



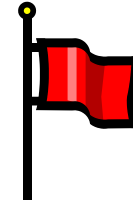
Red Flags in Cash Disbursements



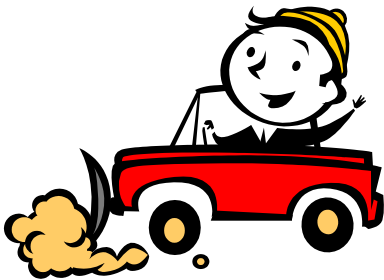
- Canceled checks (or copies) not available
- Checks issued out of sequence
- Checks issued not shown on abstracts or payroll reports
- Unexplained changes made to abstracts
- Unexplained transfers from bank accounts
- Use of signature stamps to sign municipal checks



Red Flags in Payroll

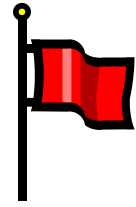


- Employees with few or no deductions
- Employees charged to multiple account codes
- Unreasonable hours charged (overtime for snow plowing in June)



NYS COMPTROLLER
THOMAS P. DiNAPOLI

Red Flags In Purchasing



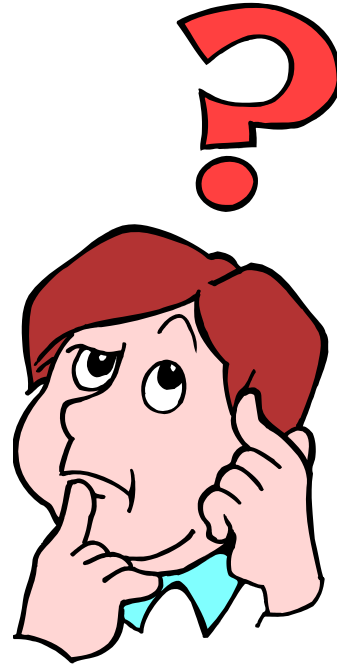
- Suspicious shipping address
- Vendor addresses matching employee addresses
- High volume of purchases from new vendors
- Abnormal inventory shrinkage
- Vouchers lacking adequate description of goods or services purchased



What if you have concerns?

- First discuss your concerns with the Officer/Dept Head whose records are being reviewed
- If you still have concerns - contact your OSC Regional Office for further guidance
 - Syracuse (315) 428-4192





Questions / Concerns?

Contact the Syracuse Regional Office

Muni-Syracuse@osc.state.ny.us

315-428-4192



NYS COMPTROLLER
THOMAS P. DiNAPOLI