



WORK PLACE fraud

It's Really Easy

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Would you like an extra \$130,000? Of course you would. Who wouldn't? According to the Association of Certified Fraud Examiners, the median loss caused by asset misappropriation fraud is \$130,000. With the average Maryland municipality's budget of over \$8.3 million (excluding Baltimore City), skimming off less than 2% isn't really that hard.

Where's the Cash?

There are probably a lot of things lying around Town Hall that seem worth taking, but generally if employees are going to steal something, it's going to be cash. Petty cash is an easy target, but

generally there's only a couple hundred dollars available at the most. For bigger bucks, there are other methods for stealing money.

There are two broad categories for stealing cash: (1) theft of cash receipts, and (2) fraudulent disbursements. In other words, through money coming in or money going out. Money coming into a municipality usually takes the form of a wire transfer and it goes directly into the Town's bank account. It's pretty hard to directly divert incoming money, but not so hard to set some aside to take later.

Worksite Example

Rita Crundwell stole \$54,000,000 from the Town of Dixon, Illinois by diverting revenue into a secret bank account that she had set up. No one else knew about it and she was the only signatory. She would then spend money out of that account whenever she wanted to. Unfortunately she made the mistake of going on vacation and another employee opened the bank statement that came in the mail and started asking questions. Successful fraudsters never take vacations!

Fraud Method #1

Erroneously enter income lower than the amount actually received. Income tax revenue for \$350,000 shows up via direct deposit. An employee can just record revenue as \$300,000. That extra \$50,000 can be withdrawn later and no one will ever know. It has to come out before the end of the month though, so it won't show up on the bank reconciliation.

Lesson for your Municipality

Keep an eye on accounts receivable and the employees recording the money.

Check on the Checks

Employees can also just write themselves a check. What could be easier than that?

Worksite Example

The finance director for a large organization in Washington, DC simply wrote checks to herself and cashed them. In a mere ten months, she managed to take over \$160,000. That's \$16,000 every month.

Fraud Method #2A

In this example, the finance director printed out checks to herself (using QuickBooks) and forged the appropriate signature. After the check was printed, she then went back into QB and changed the payee field from her own name (that's how it printed right on the check) to something innocuous like ABC Consulting. That way, when it was time to print the monthly report of checks written, her name did not appear on the list.

Fortunately for her no one ever checked the bank statements because the check images clearly showed checks for thousands of dollars made out to herself in her own name.

Fraud Method #2B

If an invoice really needs to be filed, all an employee has to do is print up a phony invoice for a few thousand (even print it on the Town's printer). Then, depending on the expected procedures, forge a set of "approval" initials. Then be sure to enter it into QuickBooks as something vague like "consulting" because no one ever looks there.

Lesson for your Municipality

Review bank statements! Fortunately, QuickBooks has an "audit trail" function that will show when any field has been edited -- like the payee.

Does He Work Here?

The biggest single expense a Town (or just about any entity) has is salaries. Up to half of all the cash going out the door goes to someone's salary. Setting up a ghost employee who receives a salary is another common fraud method.

Worksite Example

- » Delbert Morgan was recently convicted of taking more than \$200,000 from Knox County, Kentucky, over a four-year period in a ghost employee scheme.
- » A former employee of Monroe, Louisiana is on trial for hiring an employee that never provided services (which included "overtime").
- » In Delaware, a School District Finance Director paid himself an extra \$150,000 over eight years. He also underpaid several school administrators a combined \$50,000 in one school year.

Fraud Method #3

Look at all these ways to commit payroll fraud! Here's how to get a ghost employee added to the payroll.

- » When an employee quits, they are kept on the payroll and the direct deposit information is changed to the bank account of the employee committing fraud.

- » Local death records can supply social security numbers of dead people who can then be added to the payroll easily.
- » Employees looking for extra income can also just authorize a raise for themselves.

Lesson for your Municipality

Don't let payroll be automatic! Make sure someone trustworthy reviews it. Timecards add that extra layer of review, too.

Who's Driving the Mercedes?

With an authorized credit card, employees can buy virtually anything. Fraudulent credit card purchases are probably the easiest fraud scam. Checks are harder because somebody has to sign them and then they show up on the bank statements. Credit cards are just easy money.

Worksite Example

The Executive Director at a city's housing authority was the authorized user of its official credit card. After years of service, he decided it couldn't hurt to buy a new set of tires for his personal car. And new appliances for his kitchen. And some new patio furniture, too. In all, he charged nearly \$20,000 in personal expenses to the housing authority in just one year. Repairs to his personal Mercedes-Benz eventually did him in.

Fraud Method #4

Just whip out the card and use it! It's so easy for an employee ordering computers to buy one extra. If an employee knows where the public works trucks are gassed up, filling up his own car on the city's credit card is easy.

Lesson for your Municipality

Look at the bank statements before just paying the bill. Question odd charges that don't match your business need and vague ones like Amazon that could be someone's new kitchen appliance!

Internal Controls Are Your Friend

Help deter fraud by making sure there are internal controls in your finance processes. Internal controls are a fraudster's undoing. If someone outside the processing/payment cycle takes the time to review things with a skeptical eye, the odds of catching employees on the take increase. If one person is doing everything, the chance for fraud is much greater.

Hopefully, with the tips in this article, you can check to make sure your municipality hasn't made it easy for an employee to take the cash! ❖

Lindsey + Associates is a certified public accounting and financial consulting firm. You can contact Robert P. Diss, CPA, at Lindsey Associates, 410/825-1994, ext. 209, e-mail rdiss@acpafirm.com, or visit the firm's exhibit booth (# 419) at MML's convention, June 28 – July 1, 2015, in Ocean City.