



Preventing and Detecting Fraud in Your Organization

Reporting losses (RCW 43.09.185)

Report all suspected or known losses, including:

- Money and other assets
- Other illegal acts

Responsibilities of management

- Protect their employees by establishing policies and procedures designed to safeguard funds from loss
- Ability to fix responsibility for funds to a particular employee at a point in time, all the time
- Ensure proper segregation of duties
- Monitor financial activity and understand it so you can identify irregularities
- Trust your employees and co-workers to a point

Cash receipting schemes

Skimming: Generally involves off-book sales or services that are never recorded in the books – employee misappropriates the funds.

Larceny: Involves misappropriating funds that are already recorded in the accounting system:

- Daily deposits
- Less cash schemes
- Voids and returns
- “Missing” funds

Red flags of cash receipting fraud

- Lack of segregation of duties or other compensating controls
- Deposits not made daily and intact
- Check/cash composition of the daily deposit does not agree to the mode of payment on the cash receipts
- Cash deposits differ from normal patterns
- Inventory discrepancies
- Unusual over/short activity
- Missing deposit slips
- Unusual journal entries
- High void activity

Report fraud online

The Washington State Auditor’s Office has a tool for reporting suspected misappropriation online at www.sao.wa.gov/investigations/Pages/FraudProgram.aspx

Questions or comments?

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Cash receipting prevention and detection

- Have adequate segregation of duties or other compensating controls
- Compare bank deposits to cash receipt records and verify the mode of payment agrees
- Review voided transactions to ensure they are supported
- Verify inventory records agree to usage
- Review bank reconciliations

Accounts payable disbursements

Causing employer to issue a payment by submitting invoices for:

- Fictitious good or services
- Inflated invoices
- Invoices for personal purchases

Red flags of accounts payable fraud

- Higher-than-usual costs
- Excess goods and services
- Copies of documents rather than originals
- Missing documents
- Unusual vendors
- Unusual changes in the behavior or lifestyle of employees
- Unusual endorsements on the checks

Accounts payable prevention and detection

- Have adequate segregation of duties or other compensating controls
- Review vendor listings for unusual vendors or excessive payments to vendors
- Ensure voided transactions are truly voided
- Review for transactions that are out of the ordinary
- Only pay original invoices - make sure they make sense
- Ensure payments made outside normal process are approved, supported and for public purpose
- Ask questions and confirm with a third party if necessary

Expense reimbursements

Any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expense, such as:

- Charging for items used for personal reasons
- Seeking reimbursement for travel and expenses when they were paid on company credit card or advanced travel
- Billing for expenses that did not occur
- Falsifying receipts to make the purchases business related
- Inflating mileage

Red flags of expense reimbursement fraud

- Expenses exceed what was budgeted or prior year totals.
- Expenses claimed on days the employee did not work.
- Minimal or non-existent support behind the request.
- Support is photocopies, not originals.
- Expenses all end in round numbers.
- Reports were approved by someone outside the department.
- Unusual or excessive reimbursement to one employee.

Employee reimbursement fraud prevention and detection

- Have adequate segregation of duties or other compensating controls.
- Establish policies and procedures and ensure they are enforced.
- Require detailed expense report with original receipts and documentation attached.
- Supervisor with knowledge of employees activities should be approving the report.
- Ask questions and get a supported answer.

Credit and gasoline card disbursement

Use of entity credit cards, gasoline cards or open purchase orders for personal purchases.

Specific risks for credit purchases:

- Used at unauthorized vendors
- Used for unauthorized purchases
- The approval spending limit may be exceeded

Red flags for credit purchases

- Lack of policies and procedures for credit purchases
- Credit purchases are paid from the statements without detailed receipts for support
- Lack of monitoring of credit purchases
- The detailed credit receipt is not obtained, just the summary
- Credit bills go directly to purchaser versus a supervisor/mentor
- Credit purchases are higher than expected

Credit fraud prevention and detection

- Create and enforce adequate policies and procedures regarding credit purchases
- Review bills and supported documentation submitted to ensure the purchases are approved, supported and for a public purpose
- When irregularities are found, follow up to ensure the purchases were appropriate
- Ensure items that were purchased were received and are onsite

Payroll disbursements

Payroll fraud involves making false claims for compensation. It can be achieved through schemes such as:

- Adding “ghost” employees to payroll
- Adding hours to timesheets that were not worked
- Taking leave without using annual or sick leave
- Manipulating benefit information

Payroll fraud red flags

- Unusual fluctuations in payroll expenses, including benefit line items
- Poor internal controls
- Employees with P.O. Box addresses
- Missing paychecks
- Employees with the same direct deposit account
- When you ask questions, you do not receive an answer

Payroll fraud prevention and detection

- Use the straight-line approach for payroll processing
- Review payroll registers regularly – ask questions and get supported answers
- Review personnel files to verify it is a real person and he or she is an employee (ghost employees can be real people)
- Monitor to ensure overtime is supported and reasonable
- Review leave reports for reasonableness
- Keep unused check stock secured
- Review returned checks for dual signatures
- Create and review error reports:
 - Same bank account number
 - Same address

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