

# First Friday Fraud Facts

July 6, 2009

## Share your stories

If you have a case you would like to see shared in *First Friday Fraud Facts*, please let us know.

## QUESTIONS OR COMMENTS:

Erin Haney, CIA  
Statewide Financial Internal  
Controls Officer  
155 Cottage St NE, U50  
Salem, OR 97301

Phone: 503-378-3156 ext. 277

Fax: 503-378-3514

E-mail: [erin.d.haney@state.or.us](mailto:erin.d.haney@state.or.us)

## Inside this issue:

Welcome	1
Common Fraud Schemes	1
Why Fraud Goes Undetected	2
What Can You Do	3

Previous issues of F<sup>4</sup> have covered the topics of payroll and human resources fraud. This issue will cover some of the common frauds in several different functional areas including travel, vendor payments and purchasing, accounts payable and cash schemes, accounts receivable and revenue schemes, as well as some of the ways to identify them. This issue will also go over some of the reasons fraud schemes are able to go undetected despite good internal controls that may be in place.

## COMMON FRAUD SCHEMES AND DETECTION METHODS

Travel fraud can be perpetrated by duplicate claims as well as false claims. Duplicate claims can come in the form of claims for personal mileage while also claiming the use of a rental car; claims for travel related charges that have been paid on a travel card or paid in advance (meals, hotels, airfare, etc.); overlapping travel dates; travel dates where leave was incurred but claims are still being made.

Vendor and purchasing fraud schemes often are in the form of conflicts of interest and fraudulent vendors. Common ways to identify possible conflicts of interest or false vendors is by checking for address or phone number matches between employees and vendors. Fraudulent vendors can also be identified by checking for some of the following potential indicators:

- multiple vendors with the same address,
- sequentially numbered invoices,
- repeated invoices just below approval thresholds,
- invalid federal tax identification numbers, and
- vendor names that are very similar to other well known vendors.

Other common vendor and purchasing fraud schemes include anti-trust violations such as bid rigging and kickbacks which have been



covered in previous issues of F<sup>4</sup>.

Accounts payable and cash fraud schemes often take the form of paying personal bills with business funds, making payments to fictitious suppliers, receiving kickbacks from vendors, ordering personal items while placing a legitimate business order, theft from petty cash funds and cash registers, failing to record cash receipts and stealing the funds, altering bank deposits, as well as many other forms.

Accounts receivable and revenue fraud is most commonly found in the form of skimming, lapping of receivables, forging checks, retaining cash receipts while writing off the debt as uncollectable, altering credit card receipts, and kickbacks and other conflicts of interest. Some of the signs of skimming include reductions in sales while inventory levels also decline, increases in inventory shortages, increased cashier overages or shortages, or a high volume of cashier no sales, voids, corrections, or overrides.

### **WHY FRAUD GOES UNDETECTED**

There are many reasons internal controls fail to detect fraud. Often they are circumvented because individuals are simply “going through the motions” but are not thinking about why the process is in place and what the purpose is. Another common problem is a failure to acknowledge warning signs. Many people think that fraud is something that happens in other organizations, but not in theirs. They trust the people they work with and believe they are honest and would not perpetrate a fraud scheme. Other times signs of fraud go undetected or questioned in an attempt to avoid conflict and confrontation, or because they feel that it is not their place to intervene or question others. It is also sometimes the case that employees lack the knowledge to identify the issue.

New employees can often be in a unique position to question why something is being done the way that it is, and often provide a non-biased perspective on a process. However, many times they may not feel they are in a position to question the processes or procedures that are in place or the supervisor may not see these questions and criticism as an opportunity to reflect on the process and be sure it is appropriate.

Controls can also fail because they have been overridden by individuals who believe that they have a good and justified reason or that the controls do not apply to them for one reason or another. Controls are also overridden or

bypassed as a result of excessive workloads that result in not enough time to perform controls procedures.

### WHAT CAN YOU DO

Some of the common things management can do to instill a culture of honesty and ethical behavior, develop appropriate oversight processes, and ensure antifraud process and controls are in place.

Some methods to achieve, or increase the chances of achieving, a culture of honesty and high ethical standards are creating a positive workplace environment, hiring and promoting good employees, providing adequate training for employees, and setting the appropriate tone at the top within the organization.

Developing appropriate oversight processes can include processes such as:

- effective use of the internal audit function,
- ensuring oversight is provided by an audit committee or equivalent group,
- providing adequate management oversight,
- encouraging open and candid dialogue with auditors, and
- making use of entity risk assessments.

There are a number of important aspects of ensuring appropriate antifraud processes and controls are in place. Some of these may include identifying and measuring fraud risks, mitigating those risks where possible, designing and implementing appropriate internal controls, monitoring compliance with internal controls once they are in place, and staying alert to warning signs. Many organizations also use data mining in the areas of payroll and employee information, vendors and accounts payable information, as well as many other areas to help detect potential fraud.

**FIRST FRIDAY FRAUD FACTS IS  
PUBLISHED BY THE STATE  
CONTROLLER'S DIVISION**

155 Cottage Street NE

Salem, OR 97301

Phone: 503-378-3156

Fax: 503-378-3514

<http://www.oregon.gov/DAS/SCD/index.shtml>

**WHO CAN YOU CALL FOR HELP?**

The State Controller's Division reminds state agencies that it is always available to answer internal control questions. If you have an internal control problem or an audit finding and need help in resolving it, please contact:

**Erin Haney**

**Statewide Financial Internal Control  
Officer**

[erin.d.haney@state.or.us](mailto:erin.d.haney@state.or.us)

**Internal control tools are on the Web!**

[http://www.oregon.gov/DAS/SCD/internal\\_controls.shtml](http://www.oregon.gov/DAS/SCD/internal_controls.shtml)