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***Ulster County Comptroller's Office***  
***Fraud Awareness and Improving Internal Controls for***  
***Not-for-Profit Organizations***



# Why are you here?

Ulster County has:

762 Not-for-Profits

Generating \$379,126,749 in Revenues/Yr

Assets of \$527,810,661

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# Who Commits Fraud?

- An individual in the organization who is very trusted.
  - Average age is 41 with most perpetrators being between 20-60.
  - Women earning less than \$50,000 and who have worked less than three years at the organization.
  - 25% of all nonprofit fraud committed at the management level:
    - Accounting Department most frequent
    - Executive level management second most frequent
    - Upper level management third most frequent.
  - 43% of all fraud is discovered through tips.
    - ½ of those reported by employees and vendors.
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# Types of Fraud in Your Organization

- Asset Misappropriation
  - Fraudulent Statements
  - Skimming
  - Stealing Cash on Hand
  - Lapping
  - Personal use of Assets
  - Kickbacks
  - False / Inflated Invoices
  - Diverting Interest or Gains
  - Self-Payment
  - Forging Checks
  - Ghost Employees
  - Overpayments
  - Credit Card Fraud
  - Expense Report Fraud
  - Payroll Withholding
  - Theft
  - Excess Purchasing Schemes
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# Putting Fraud into Context

3 – 5% of all fraud is made up of Financial Statements

**95 – 97% of all fraud is made up of misappropriations of assets (mainly cash)**

Financial Statement fraud cases result in up to 30 times more losses than misappropriated cash

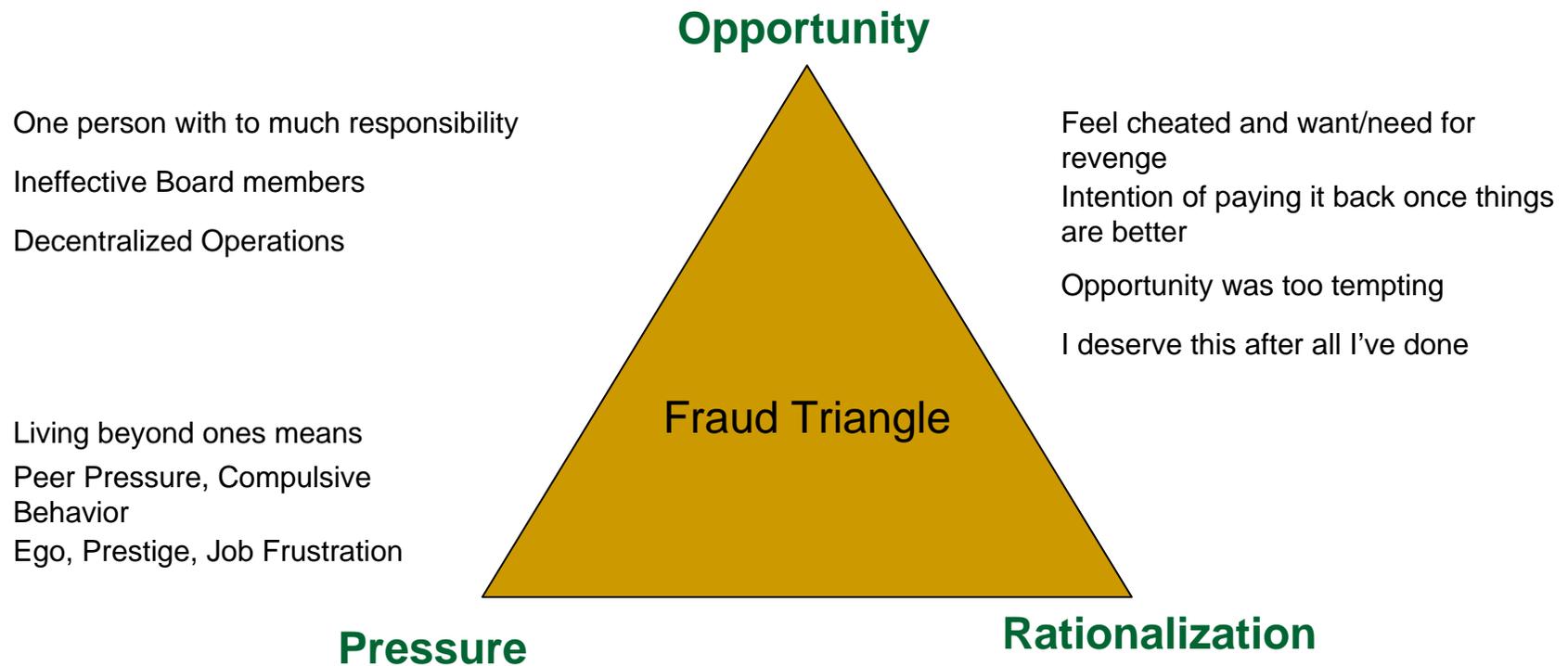
**Misappropriations of cash are more frequent, but less in total**

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# Causes of Fraud

**Poor Internal Controls gives the opportunity for Fraud to happen**



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# RED FLAGS THAT FRAUD MIGHT BE HAPPENING TO YOU

## **Employee Red Flags**

- ⌘ Life style changes (expensive jewelry, clothes, home)
- ⌘ Significant debt or credit problems
- ⌘ Behavioral changes (addictions to drugs, alcohol, gambling, etc.)
- ⌘ High employee turnover

## **Behavior Red Flags**

- ⌘ Borrowing money from co-workers
- ⌘ Creditors/collectors showing up at work place
- ⌘ Easily annoyed at reasonable questions
- ⌘ Rewriting records under guise of neatness in presentation
- ⌘ Unreasonable responses to questions

## **Management Red Flags**

- ⌘ Reluctant to provide information to auditors or engages in disputes with auditors
  - ⌘ Management displays significant disrespect for regulatory bodies
  - ⌘ Individual or small group dominates decisions
  - ⌘ Weak Internal Control environment
  - ⌘ Decentralized systems without proper monitoring
  - ⌘ Excessive checking accounts or frequent change in bank accounts
  - ⌘ Assets sold for far less than value
  - ⌘ Continuous rollover of loans
  - ⌘ Accounting personnel lax or inexperienced in their duties
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# MORE RED FLAGS THAT FRAUD MIGHT BE HAPPENING TO YOU

## **Cash & Accounts Receivable**

- ⌘ Excessive number of voids, discounts or returns or large write-offs
- ⌘ Unauthorized bank accounts
- ⌘ Sudden activity in a dormant bank account
- ⌘ Complaints from customers about receiving non-payment notices
- ⌘ Discrepancies between bank deposit slip and record posting
- ⌘ Abnormal number of expense items, supplies or reimbursements to employees.
- ⌘ Excessive or unjustified cash transactions
- ⌘ Bank accounts not reconciled or not reconciled timely
- ⌘ Shortage or overage in cash draws
- ⌘ Payee on cleared checks altered
- ⌘ Duplicate payments & duplicate voided in your records.
- ⌘ Increase in past due accounts

## **Payroll**

- ⌘ Employees with duplicate Social Security number, name or address
- ⌘ Overtime for employee who normally does not work overtime
- ⌘ Employee with few or no payroll deductions
- ⌘ Inconsistent O/T hours or budget vs actual variance out of line

## **Purchasing / Inventory**

- ⌘ No physical security over assets
- ⌘ Payments to non approved vendors
- ⌘ High purchase volume of rarely used items
- ⌘ Purchases that bypass normal procedures
- ⌘ Vendors - missing address, PO Box used and/or Tax ID # missing
- ⌘ Employees that pick up vendor payments rather than have them mail to business
- ⌘ Missing documentation for shipped items

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What should you do to prevent Fraud?

**Fraud Detection** is **PROACTIVE**

Where as



This is not what you  
want to be doing after  
the fact

**Investigation** is **REACTIVE**

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As a Board Member is this your problem?

**In general, board members feel as if they need more focused information to properly govern the not-for-profit organization which in turn will help in the detection and prevention of fraud**

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# Five Aspects of Internal Controls that you Control

- **Control Environment**

- Tone at the top
- Policies
- Organization Authority

- **Risk Assessment**

- Monthly meetings on risk
- Internal risk assessment

- **Control Activities**

- Purchasing Limits
- Approval levels and authority
- Reconciliations

- **Information and Communications**

- Alignment of goals to processes
- Issue resolutions
- Reporting time frames

- **Monitoring**

- Monthly review of performance reports
  - Internal Audit Functions
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# Suggested Financial Information for Board Members as a way to Detect Fraud

## All Board Members

- Summary P&L and Balance Sheet
- Summary Cash Flow statements
- Summary overview of activity by program and department.
- Summary report of budget versus actual – revenues & expenses

Think of dash boards for this type of information

## Committee Members

- Detailed Actual versus Budgeted – P&L
- Detailed Revenue line item analysis
- Monthly Bank Reconciliations
- Check payment detail, Vendor payment detail, Payroll detail reports

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# Five Step Approach To Fraud Detection

- **Know the Exposures:**
    - Know what can go wrong, who can do it, and what their opportunities are to do it.
  - **Know the Symptoms of Fraud Occurrence:**
    - Symptoms are specific and may be the fraud itself
    - Look for cover-up tactics
  - **Be Alert for Symptoms and Behavior Indicators:**
    - Know your employees and respond to behavior indicators and changes in patterns.
  - **Build Control Procedures that detect Symptoms:**
    - Work with your CPA to insure Internal Controls are adequate (ie: Segregation of duties)
    - Adopt a whistle blower policy to protect the innocent
    - Review and approve all transactions
    - Use technology to your advantage
  - **Follow through on all Symptoms:**
    - Maintain a healthy dose of professional skepticism
    - Be aware that one symptom may not be the whole story
    - Follow through, Follow through, Follow through
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# Questions and Answers

## **Contact Information**

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