



**Williams Overman Pierce, LLP**  
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**Gwen Vass, Managing Partner**  
**CPA, CFE**

**Invites You to Attend**  
**Who's Watching Your Piggy Bank?**  
**A Session on Internal Controls and Fraud**



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## Pervasiveness of Dishonesty

- 3 out of 10 steal; 3 more out of ten would steal; only 4 out of 10 are honest
- 2/3 of college students admit to cheating
- 87% of managers are willing to commit fraud
- Willing to Commit Fraud : 47% of top executives; 41% of controllers; 76% of graduate business students



# Junior Achievement/Harris Interactive Poll

- 33% of teens polled stated they would act unethically to get ahead or make more money if there was no chance of getting caught.
- 25% said they were not sure
- 42% said they would not

Reported by Deloitte & Touche Sept. 17, 2003



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## Interesting Statistic

82% of corporate executives admit they cheat @ golf,  
72% believe business & golf behavior parallel.



# Profile of an Embezzler

- Your most trusted/valued employee
- Works long hours
- Dislikes mandatory vacation policy and cross training
- Disorganized/missing records
- Likeable and generous (especially with new source of wealth)
- Good reputation in the community
- Financial problems
- Someone you would never suspect!



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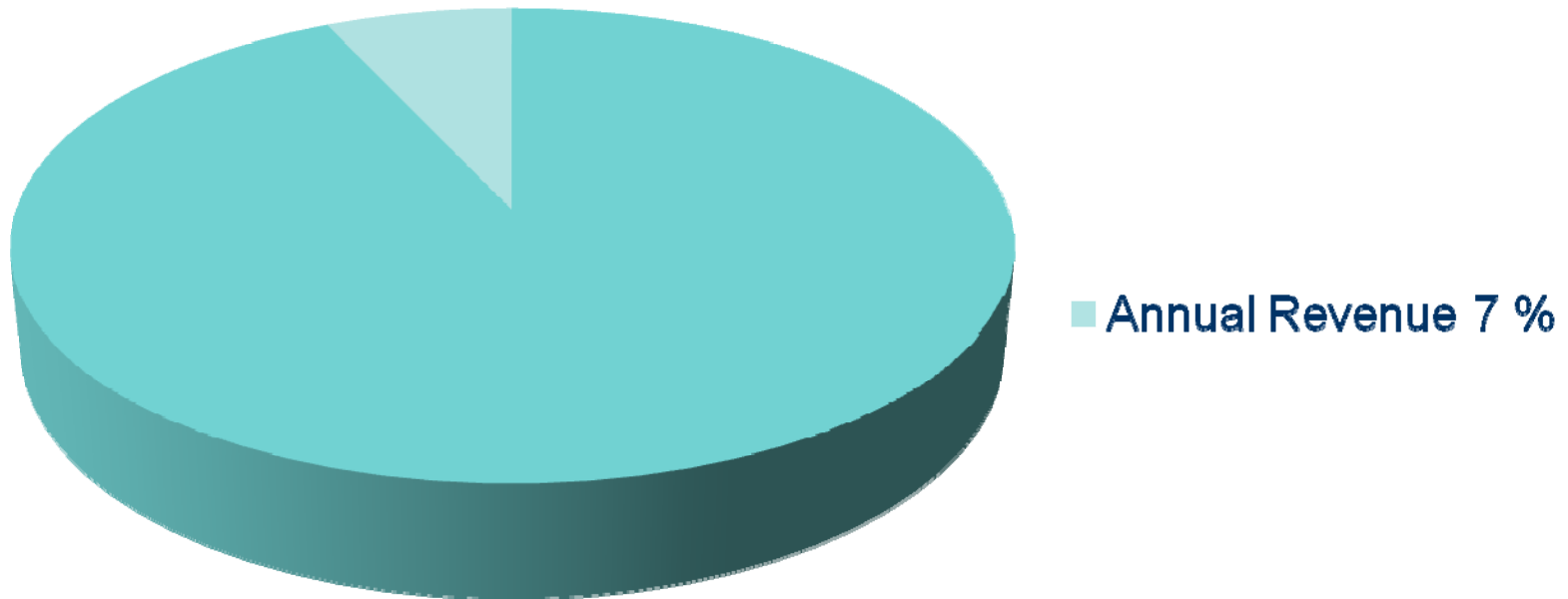


## 2008 Report to the Nation



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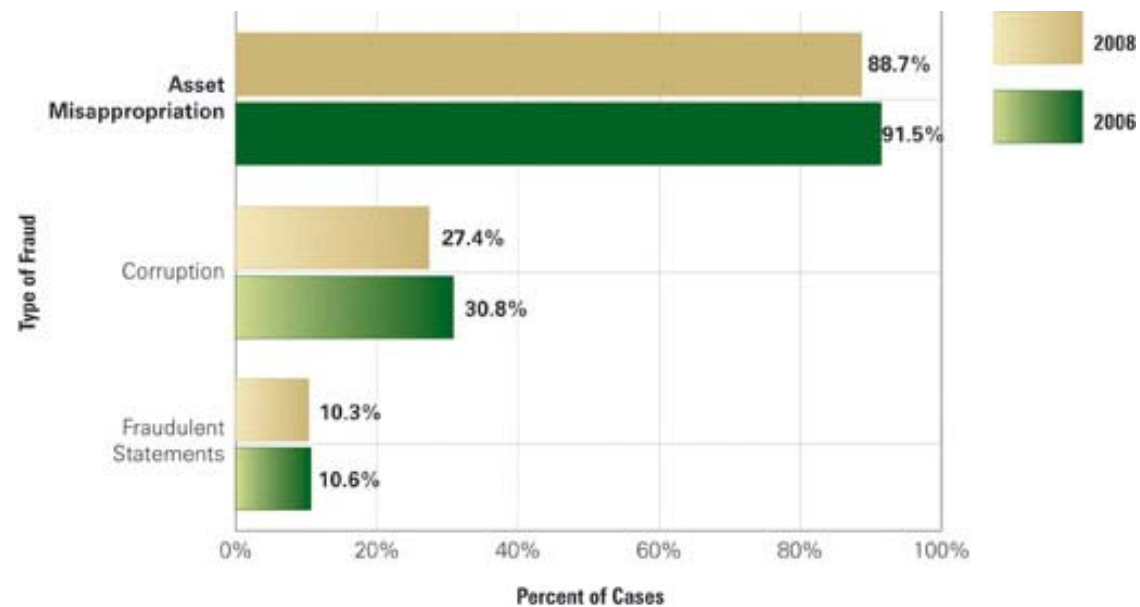
# Cost of Fraud to Organizations





# How Occupational Fraud is Committed

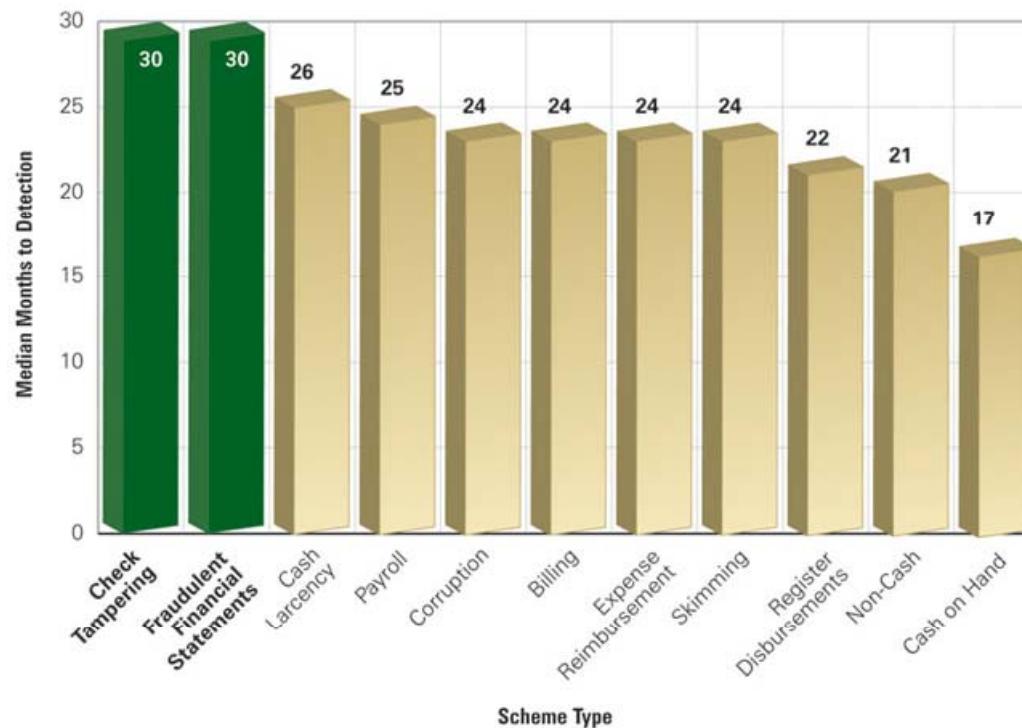
## How Occupational Fraud is Committed





# How Occupational Fraud is Committed

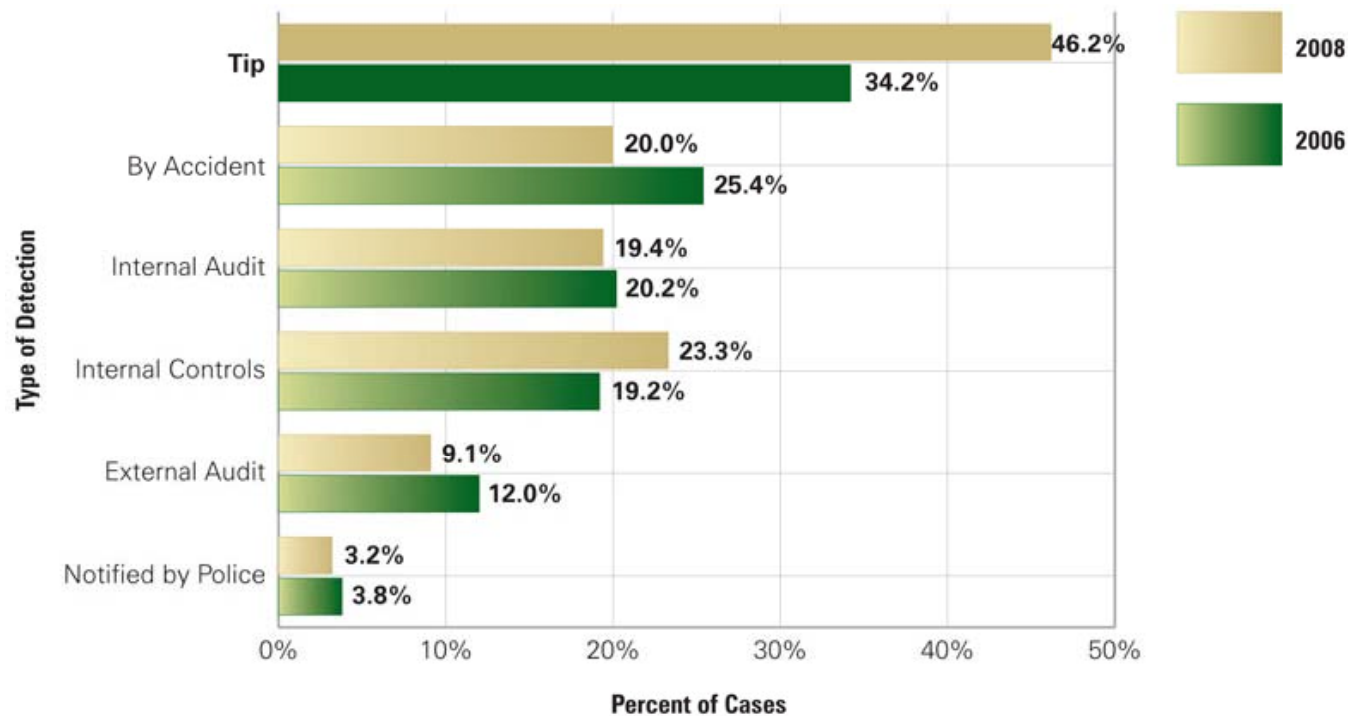
Median Duration of Fraud Based on Scheme Type





# Detection of Fraud Schemes

### Initial Detection of Occupational Frauds<sup>4</sup>

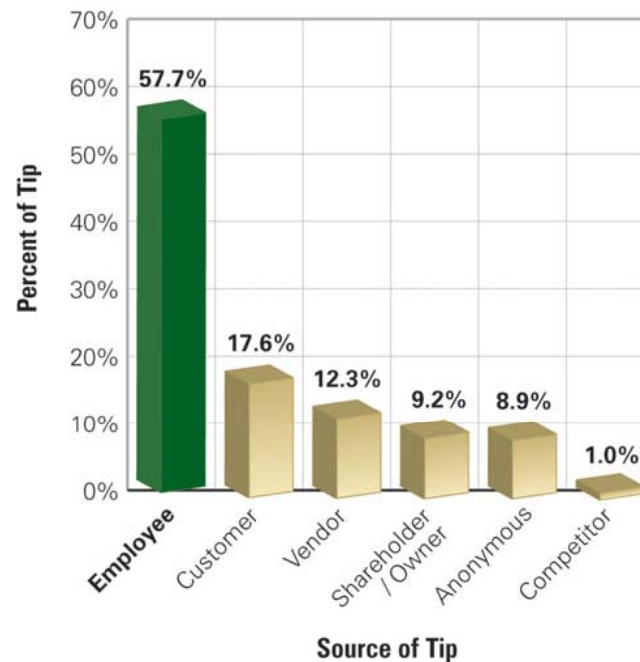


<sup>4</sup>The sum of percentages in this chart exceeds 100 percent because in some cases respondents identified more than one detection method.



# Detection of Fraud Schemes

Percent of Tips by Source<sup>9</sup>

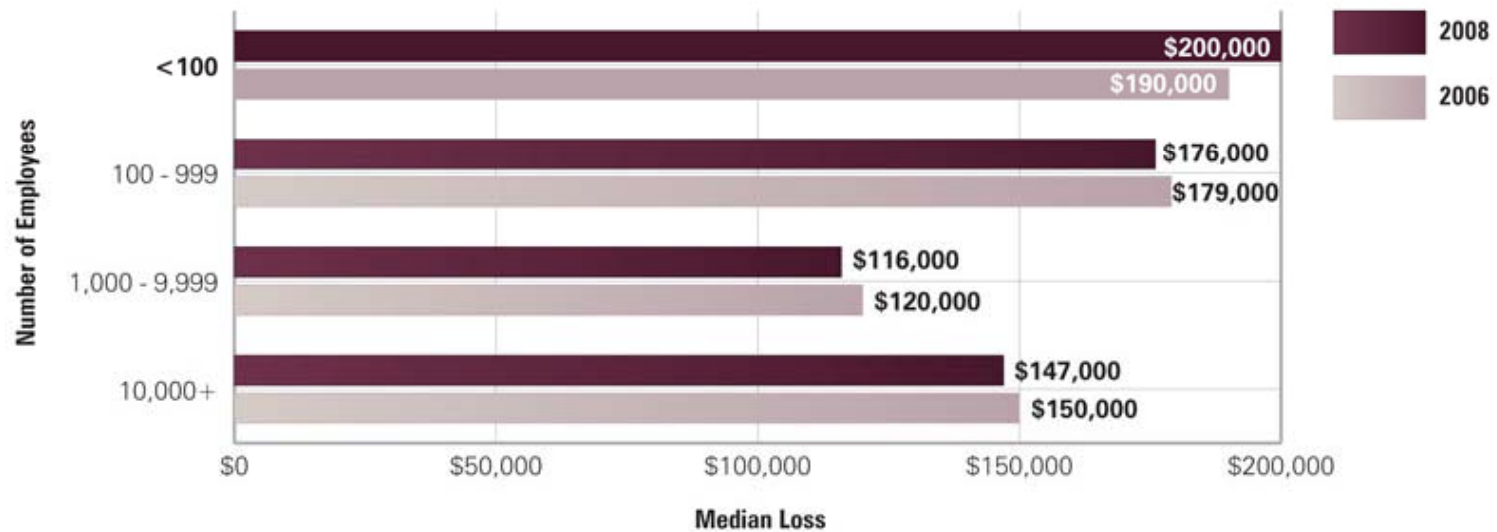


<sup>9</sup>The sum of percentages in this chart exceeds 100 percent because in some cases respondents identified more than one source of the initial tip.



# Victim Organizations

## Size of Victim Organization — Median Loss





# The Fraud Triangle

- Incentive/pressure
- Opportunity
- Rationalization/ attitude





# The Fraud Triangle

- PRESSURES/MOTIVES
  - Greed
  - Living beyond one's means
  - High personal debt
  - High medical bills
  - Poor credit
  - Personal financial loss
  - Unexpected financial needs
  - Addictions
  - Extramarital affairs





# The Fraud Triangle

- OPPORTUNITY
  - Lack or circumvention of internal controls
  - Past failure to discipline embezzlers
  - Management apathy
  - Ignorance or incapacity to detect fraud
  - Lack of an audit trail





# The Fraud Triangle

- RATIONALIZATION
  - The Organization owes it to me
  - I am only borrowing the money
  - They can afford it
  - I deserve more
  - It's for a good purpose





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## What To Do

- Background Checks
- Checks and Balances
- Segregate Duties
- Rotate Duties



## What To Do - Cash

- “For deposit only”
- Receipts List
  - Deposit Slip
  - Bank Statement
- Bank Statement Review



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# Misappropriation of Assets

- Accounts Receivable
- Purchasing
- Payroll
- Computer Schemes



# Accounts Receivable

- Diversion of payments from customers
- Common techniques:
  - Lapping
  - Posting bogus credits to the account
  - Altering internal copies of invoices
- Diversion of payments from written off accounts
- “Managing” past-due accounts with customers



## What to look for:



- Differences noted by customers
- Significant delays payment made & payment recorded
- Credit entries & other adjustments
- AR ledger & general ledger differences

# What To Do – Receivables

- Review
  - Write offs
  - Credits
  - Past Due
  - Analytics
- Reconcile
  - Detail to general ledger



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# Purchasing

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- Largest area of risk for small businesses
  - Payment of invoices to a fictitious company



# Purchasing



- Kickback paid by vendors to company's purchasing agent
  - Billings for goods or services never performed
  - Multiple billings for the same item
  - Overbilling
  - Excess purchasing of property or services
  - Bid rigging



## What to look for:

- Fictitious vendors:
  - Photocopied or altered invoices
  - Invoice numbers in consecutive sequence
  - Invoices with P.O. boxes or no phone numbers
  - Invoices with same address or phone number as employee
  - Amount just below a threshold for review
  - Multiple companies with same address and phone number



## What to look for: (continued)

- Kickbacks:
  - Purchasing agent handles all matters
  - Vendors receiving inordinate amount of business
  - Vendor salesmen frequent unexplained visits
  - Prices unreasonably high
  - Low quality
  - Tips or complaints
  - Contracts awarded w/no formal bid process

# What To Do - Purchasing

- Approved Vendor List
- Approval Process Procedures
- Mailing Payable Checks
- Use P.O.s



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## Payroll

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- Ghost employees
- Keeping terminated employees on payroll



# What to Look for

- Ghost Employees
  - Duplicate addresses, checking accounts, social security #
  - No withholding taxes, insurance, or normal deductions



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# What To Do - Payroll

- Review Time Records
- Check Payroll Records



# Computer Schemes

- Entering false transactions
- Entering bogus file maintenance transactions
- Failure to enter legitimate transactions
- Altering input data
- Bogus instructions
- Siphoning funds
- Direct manipulation of accounts





## What to look for:

- Inability process computer apps in timely manner
- Unexplained differences in batch or hash totals
- Undocumented/ unauthorized account postings, file changes, or modifications
- Unexplained differences between GL and computerized accounting records
- Lack of segregation of duties
- Lack of logical access
- Lack of adequate computer processing controls



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**Questions?**

