



## Not in My City

- Not one victim we've spoken with said, "I saw it coming."
- 88.3%** of perpetrators have **never been charged** with or convicted of a prior offense.
- People tend to commit fraud when there is opportunity. It is **YOUR** responsibility to **minimize opportunity**.

Resource: Association of Certified Fraud Examiners Report to the Nations

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## Why so Prominent?



- Opportunity**
  - Extreme Trust – Co-workers/Friends/Neighbors/Local vendors
  - Small Financial Staff – Only a few oversee the entire process
  - Limited Controls – Lack of time results in even less focus on fraud prevention
- Rationalization**
  - Reduced Employee Benefits – Benefits continue to decrease
  - Management vs. Staff – Pressure between administration and employees for 'fair' compensation, union battles, etc...
  - Staff decrease, workload increase trend
- Pressure**
  - Public employees make less than other college graduates
  - Public employees make 35.2% less than private sector peers (Federal Salary Council)
  - Public employees salaries rise slower than other college graduates
  - Bills come at same pace**

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## Case Study - \$800,000 loss



- 2/12/2013** - Ohio Auditor of State Award
- 3/20/2014** - Ohio Auditor of State Award
- 7/2/2014** - Arrest of A/R Clerk on Theft and Corruption
- 12/14/2015** - Guilty - 10 Year Sentence
- 2/2/2016** - Fiscal Officer Placed on Administrative Leave for "Performance Failures" and ordered to pay \$95,339

Accounts Receivable Clerk / Booster Treasurer

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## Sited Issues from Post Arrest Audit

- Issued checks to Boosters (Stamped with Fiscal Officer Signature)
- Made purchases using district credit cards and was responsible for paying credit card bills
- Issued 26 district credit cards (53 total cards)
- Check substitution scheme for cash in deposits
  - Failed to deposit revenue from tickets at athletic events
  - Failed to deposit kindergarten fees and background check fees
- Generous personal donations of \$71,992 were made in his name to athletic boosters
- Paid personal credit card online from Booster accounts
- Bought flowers for staff, gifts for board members

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## The Law and Your Responsibility

Under Ohio law,<sup>1</sup>:

Any public **official** who **either authorizes** an illegal expenditure of public funds **or supervises** the accounts of a public office from which such **illegal expenditure is strictly liable** for the amount of the expenditure.

Public **officials controlling public funds** or property are **liable for the loss incurred** should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen.

<sup>1</sup> Seward v. National Surety Corp. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten (1985), 18 Ohio St.3d 228.

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## Fiscal Officer Accountability Shift

- Times have changed
- Auditor of State Findings for Recovery increase in fiscal officer findings
- Push for transparency – online checkbook

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## What Auditors are Looking For

- Internal controls over financial reporting and compliance
  - Financial Statement Audit vs. Fraud Investigation
- Risk Focused procedures
- Lack of segregation of duties
- Large and/or unusual journal entries
- Asking questions about Fraud

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## Special Audit Village of North Baltimore

Person of Interest  
Village Utility Clerk since 2008



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## Scene of the Crime



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## The Victim

- ❖ Village of North Baltimore – Wood County
- ❖ Located off I-75 North of Findlay and South of Bowling Green
- ❖ Population: approx. 3,500
- ❖ Revenue Sources: Utilities (water, sewer, trash), cemetery plot sales, shelter house rental, EMS, and Mayor's Court
- ❖ Daily open office with a staff of three
- ❖ Managed by the Village Administrator and Mayor

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## The Issues

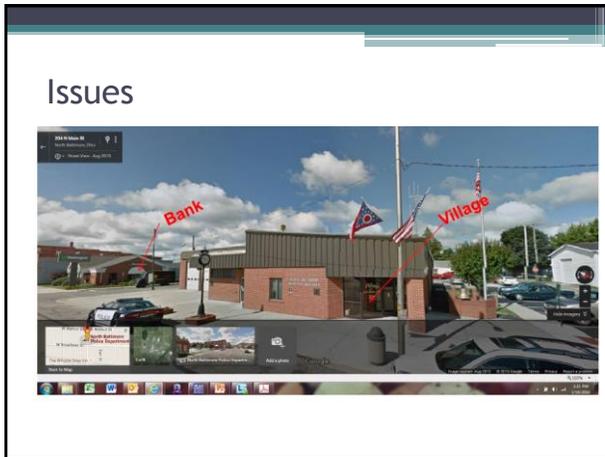
- ❖ New Village Administrator is brought in who took a more direct interest in the Village's finances
- ❖ The Utilities Clerk is requested to provide some new reports she wasn't used to providing
- ❖ Village Administrator notices things that don't look right
- ❖ Auditor of State's Local Government Services comes in
- ❖ They notice there are transactions of the accounting side that never hit bank account

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## The Safe's Secret Compartment



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## Significant Dates

- ❖ October 21, 2014 – Utility Clerk put on administrative leave
- ❖ October 28, 2014 – Preliminary meeting with the Village
- ❖ November 12, 2014 – Utility Clerk was terminated
- ❖ November 19, 2014 – SATF approved a special audit 1

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## Audit Findings

- ❖ The Utility Clerk was solely responsible for making bank deposits
- ❖ No reviews were performed to compare the amount deposited in the bank vs the amount collected on the batch report
- ❖ The Village had a history of Reconciliation Issues
  - ❖ 2013 – “The Village does not reconcile their bank balances to the books”
  - ❖ 2012 – “The Village does not reconcile their bank balances to the books”
  - ❖ 2011 – \$11,106
  - ❖ 2010 – \$2,616
- ❖ Multiple missing reports
- ❖ No deposit slips attached to reports
- ❖ Unusual all cash and all check batches

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## Audit Findings

- ❖ Traced each batch to a bank deposit noted on the bank statement
  - ❖ Timing issues
  - ❖ Could not locate multiple cash deposits
- ❖ 43 cash-only batches totaling \$77,501 were not deposited
- ❖ 9 batches had portions of cash missing totaling \$1,622
- ❖ It was determined that the Utility Clerk was at work on the dates of every cash only batch during the four year period the auditors examined
- ❖ A dozen adjustments made to customer accounts were not supported by factual evidence.
- ❖ None of the adjustments reflected supervisory approval

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## Audit Findings

- ✦ The Village had a Master Card that was kept in the unlocked safe
- ✦ Mr. Benedict also provided "handyman" services to the Village for which payments were made but no record of the services provided.
- ✦ During the interview of the Utility Clerk it was determined that she was not truthful on several questions as evidenced by the bank records and time stamps of deposits made.
- ✦ The Utility Clerk ultimately confessed. When directly asked why some of the cash batches were not deposited she responded:

*"I set them aside because  
I needed the money"*

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## Hindsight is 20/20

RED FLAGS!



- ✦ Purchased brand new vehicle
- ✦ Took Multiple Vacations
- ✦ Online shopping – packages delivered to the Village office
- ✦ Active social media of concerts, dinners and splurging
- ✦ Controlling over work duties (sole depositor)
- ✦ Disciplinary Action: The Utility Clerk had previously been written up for not performing her job duties

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## Audit Report Comments Issued

- ✦ **Documentation Retention:** Multiple public documents were not properly maintained
- ✦ **Timely Deposits:** Deposits were not always timely deposited at the Villages financial institution
- ✦ **Segregation of Duties:** A single individual had control over all phases of a receipt transaction
- ✦ **Bank Reconciliations & Monitoring:** Village bank account did not reconcile to their books
- ✦ **Cemetery Records & Zoning Permits:** Disarray of receipt records
- ✦ **Customer Account Adjustments:** Adjustments and voids were not properly supported nor approved by a supervisor

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## Audit Conclusion

- ✦ In the interview Benedict was asked "How much did you take?" She responded "Approximately \$38,000"
- ✦ During audit testing it was determined that a total of \$79,123 was received by the Village but not deposited to the Village Bank
- ✦ Utility Clerk was indicted on 8/5/2015 on 2 counts of theft in office, a 3<sup>rd</sup> degree felony
- ✦ Despite confessing to the crime, a plea of not guilty was initially entered on 8/17/2015
- ✦ Ultimately on 11/16/2015 the not guilty plea was withdrawn and a plea of guilty to 1 count of theft in office was entered

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## Sentencing

January 6, 2016

- 30 days in the Wood County jail
- 5 years community control
- 300 hours community service
- Ordered restitution of \$77,459.51 for criminal FFR and \$19,832 for the cost of the special audit.



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## What Can You Do!?

- Implement a **PROGRAM** of Controls
  - Awareness
  - Prevention
  - Loss minimization
- Redefine Your Role as Fiscal Officer

There are different types of controls. Each are limited when used alone but collectively become a **DETERENT**.

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## Types of Controls and Prevention

- I. Process
- II. Automation

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## I. Process Controls

- **Leadership Vigilance!**
  - 3 Segregation of duty (limit access to AP system, vendor files, signatures stamps, credit cards)
  - 3 Timely reconciliation of bank statements (30 day max)
  - 3 Establish and document procedures
  - 3 Controls on check stock and numbering
  - 3 Exclusive account for wire transfers
  - 3 Observe
- **Staff**
  - 3 Require a Code of Conduct or Ethics Policy for all employees
  - 3 Communicate new processes and ensure staff buy-in
  - 3 Mandatory vacation and cross-training
- **Audit**
  - 3 Financial statement audit had the smallest results in reducing fraud
  - 3 Unannounced internal or external review
  - 3 Personally review – Put your own spin on a review

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## II. Automated Controls

- **Positive Pay**
  - Leverage your banking resources
- **Automated Continuous Monitoring**
  - Follow regulatory guidelines
  - Manage vendors and employees
  - Automate monitoring of every transaction
  - Payment review automation and audit log
  - Save time to allow for expansion of controls

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## Continuous Monitoring Solutions

- **Fraud Prevention and Detection**
  - Check EVERY Payment
  - Identify potential issues before payment
  - Enables segregation of duties
  - Transparency into vendor and employee relationships
- **Manual Error Identification**
  - Risk ratings developed specifically to point out manual errors that could have been made by staff or vendors
  - Example: Duplicate Invoice or Duplicate Vendor
- **Regulatory Compliance**
  - Automation of required State and Federal certified external searches when initiated at time of new contract and warnings when they are required at payment
  - Findings for Recovery and EPLS (Sam.gov) verification happens automatically with each check run
  - One Auditor report of all required certified external search results
  - New Hire, Resubmission of New Hire, and Tax District validation

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## Redefining Role of Fiscal Officer

- **Risk Manager**
- Big push for parameters around Procedures not just Policies

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## Best Practices-Effective Fraud Deterrents

- **Publicize Controls**
  - Letter to staff
  - Letter to community
  - Update the board on your actions
- **Encourage and Protect Whistleblowers**
  - Fraud Hotline: 1-866-FRAUD-OH or [auditor.state.oh.us](http://auditor.state.oh.us)
- **Have a Written Fraud or Conflicts of Interest Policy**
- **Don't Depend on the Audit**
  - Financial statement audit had the smallest results in reducing fraud (3%)
  - Perform unannounced internal or external review
- **Training**
- **Implement Continuous Risk Assessment & Monitoring Controls**
  - Don't wait until there is an issue

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## One More Case Study

- Social Engineering

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## What the Experts are Saying

“Real time transaction monitors that allow questionable invoices to be researched before payment, and audit recovery software that looks for anomalies in payment transactions, such as duplicate payment of one invoice, are among the prevention measures companies are finding to be effective.”

– Gary Moulton, Partner, Forensic and Dispute Services, Deloitte

“Many of the most effective anti-fraud controls are being overlooked by a significant portion of organizations. For example, proactive data monitoring and analysis was used by only 35% of the victim organizations in our study, but the presence of this control was correlated with frauds that were 60% less costly and 50% shorter in duration.”

– Assoc. of Certified Fraud Examiners

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