

OHIO AUDITOR OF STATE
KEITH FABER

Fraud Red Flags, Schemes & Proactive Prevention

Presented by:
Tim Shockcor, Chief of Investigations
Tiffany Ridenbaugh, Chief Forensic Auditor

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Session Objectives

- AOS Special Investigation Unit
- Fraud Indicators
- Common Fraud Schemes
- Strategies to be proactive in preventing fraud
- Investigations done by SIU

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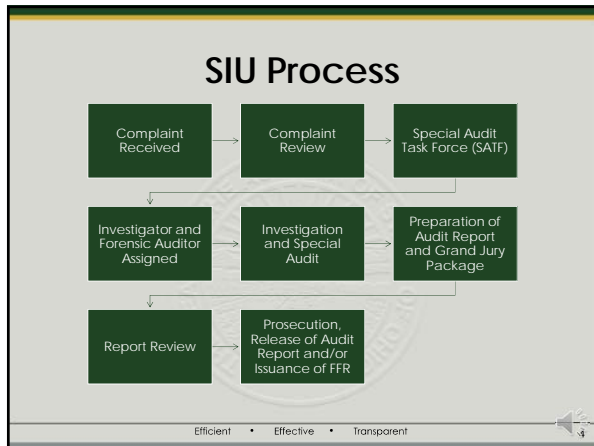
Special Investigations Unit (SIU)

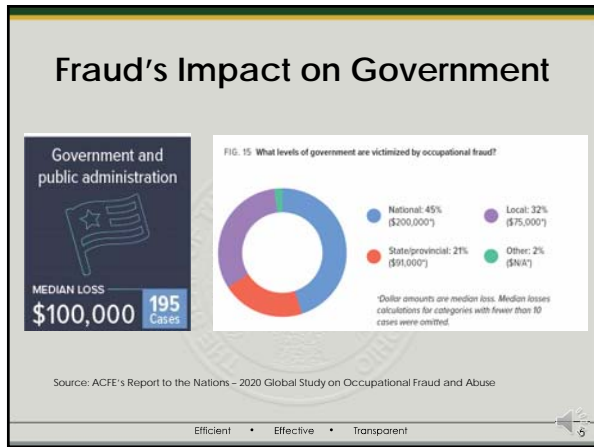
Our mission is to promote transparency and accountability in the use of public funds, to expose fraud and corruption where it exists, and to assist law enforcement and prosecutors in the pursuit of justice.

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graph TD
    Director[Director] --> Deputy[Deputy Director]
    Deputy --> ChiefInvestigator[Chief Investigator]
    Deputy --> Legal[Legal]
    Deputy --> ComplaintSpecialist[Complaint Specialist / Administrative Coordinator]
    Deputy --> ChiefAuditor[Chief Auditor]
    ChiefInvestigator --> Investigators[Investigators & Inspectors]
    ChiefAuditor --> ForensicAuditors[Forensic Auditors]
  
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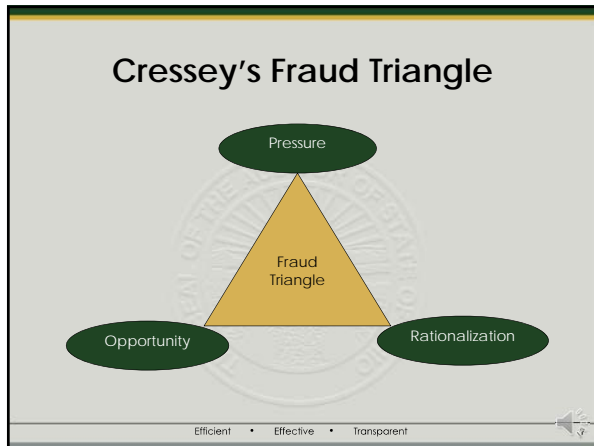


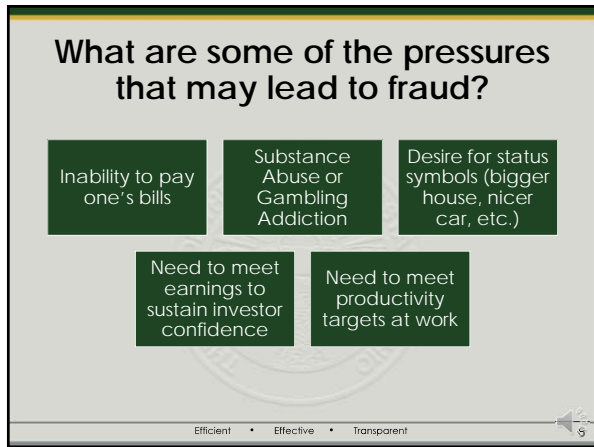


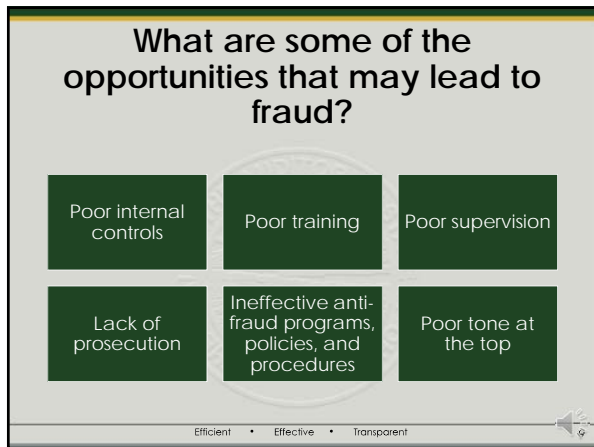
Financial Crimes

Who Commits Fraud?

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Common Rationalizations

"I was only borrowing the money."	"I was entitled to the money."
"I had to steal to provide for my family."	"I was underpaid; my employer cheated me."

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Warning Signs

- What warning signs or red flags should we all be on the lookout for in regards to employees or co-workers?

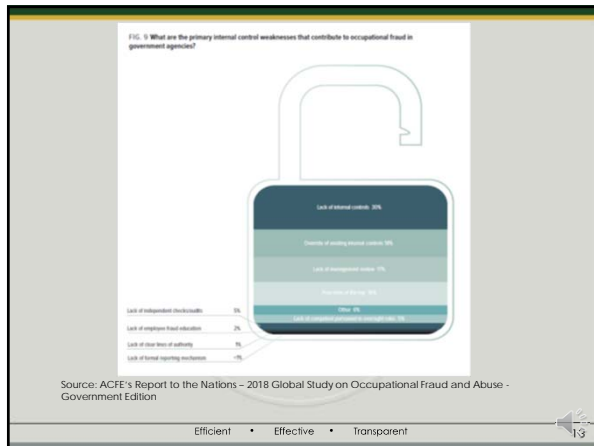


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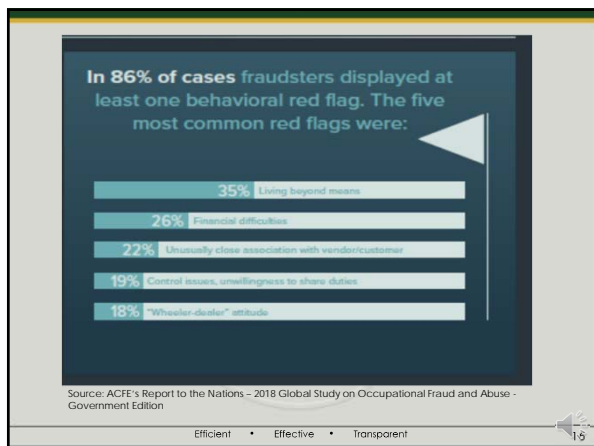
Warning Signs - General

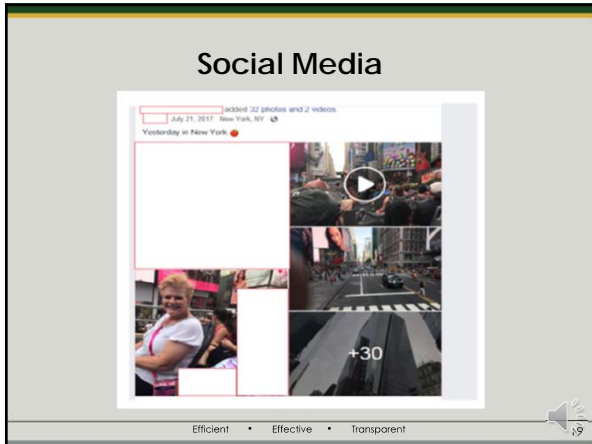
- Weak Internal Controls!
- Unsupported transactions / journal entries / adjustments
- Unexpected overdrafts / declines in cash balances
- Photocopied or missing documents
- Excessive number of manual checks
- Does it make sense?
 - Business & common sense

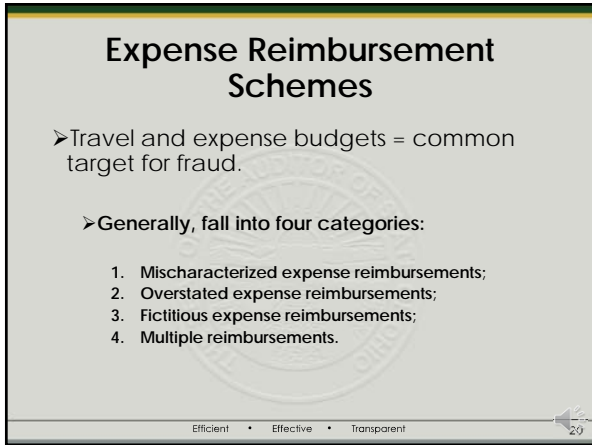
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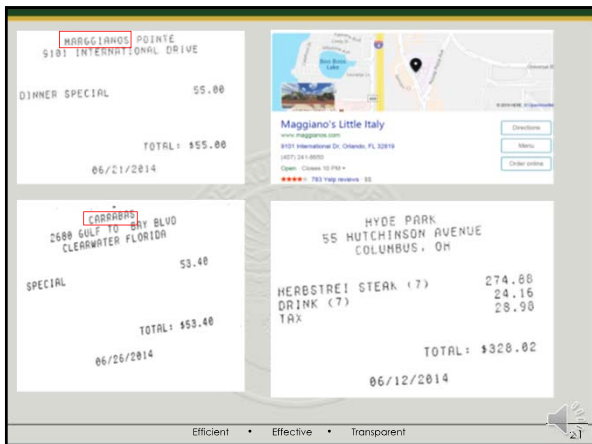


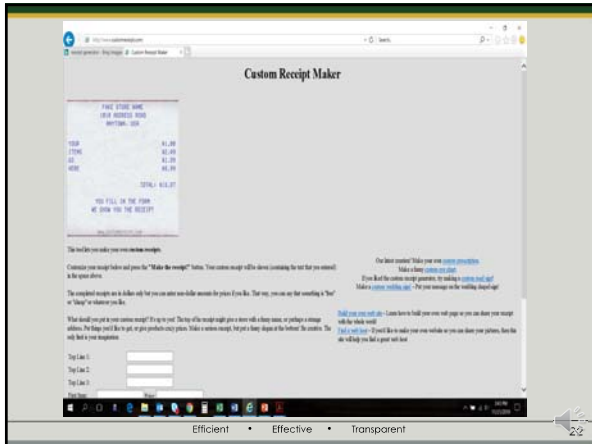
- ## Warning Signs - Behavioral
- Annoyed by reasonable questions
 - Provides unreasonable responses
 - Bragging on purchases / lifestyle
 - Refuse time-off / promotions
 - Nonresponsive & delaying tactics
 - Excessive borrowing from co-workers
 - Carrying unusually large sums of money
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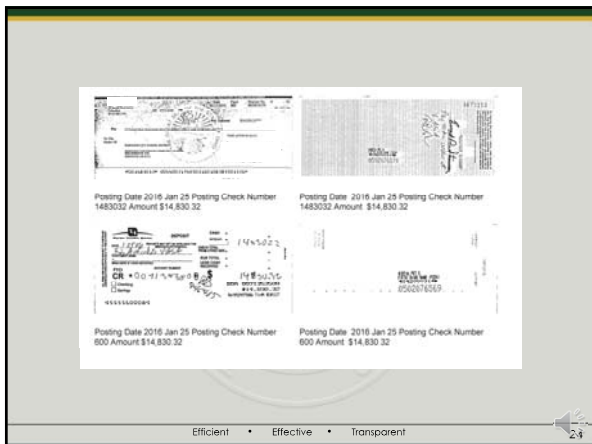




Check Tampering Schemes

- Employee either:
 - Prepares a fraudulent check for his/her own benefit; or
 - Intercepts a check intended for a third-party and converts the check

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- ### Fraud Prevention: Fraud Prevention Program
- Hotlines
 - Talk to your internal auditor
 - Appropriate Ethical Training
 - On-going Risk Assessment Program
 - Written policies & procedures
 - Internal controls
 - Segregation of Duties and Reconciliation
 - Fair & balanced discipline
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- ### Fraud Prevention: Fraud Prevention Program, cont.
- We need to be realistic in assessing our fraud prevention program
 - If you have an audit committee, but it rarely meets and passes on tips, what good is it?
 - If internal controls are not enforced, what good are they?
 - If an ethics policy is not communicated, why have one?
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Fraud Prevention: Attitude

➤ Attitude: The Importance of Exercising Professional SKEPTICISM

➤ Trust, but Verify

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SIU Audits/Investigations

➤ Pike County Clerk of Courts

- Chief Deputy Clerk
- Court payments received totaling \$5,051 were recorded in system but not deposited.
- Concealed on bank reconciliation that was not reviewed
- Garnishment checks totaling \$1,470 substituted for cash receipts.
- Lack of Segregation of Duties
- Cashed personal checks with COC
- Pled guilty to Theft in Office

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BANK STATEMENT		November, 2013		COMPUTER	
Beginning Balance	\$ 213,136.24	Bank Balance Listing End Balance	\$ 163,413.60		
Deposits (+)	\$ 16,459.93	Outstanding Checks	\$ 7,983.55		
(should equal deposits on BSL)		Bank Adjustments	\$ 40.00		
Collection Deposit	\$ 757.08	NSF	\$ 212.00		
Electronic Debit	\$ 1,246.96	Collection	\$ 299.00		
Checks	\$ 36,439.29	Bank Check	\$ 290.15		
(should equal reconcile check report)		Manual Fees	\$ 1,042.00		
Ending Balance	\$ 190,667.01	Deposit income from 8.16.13	\$ 1.00		
(should equal bank statement)					
Deposits in Transit	\$ 6,281.50				
Reconciliation Balance	\$ 196,948.51				
		Collector 11or29	\$ 55.50		
		Collection Deposit	\$ 197.50		
			\$ 812.56		

9/7/12 - \$304.75: receipts not deposited
 10/12/12 - \$2,025: receipts not deposited
 1/22/13 - \$788.50: receipts not deposited
 1/28/13 - \$571.75: receipts not deposited
 4/25/13 - \$764.50: receipts not deposited
 10/21/13 - \$964.25: receipts not deposited
 11/22/13 - \$862.75: Nov 2013 receipts deposited in December

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SIU Audits/Investigations

Revenue Schemes:

- \$241,212 deposit substitution where cash was taken and unrelated checks were substituted to cover the amounts.
- \$19,140 theft of cash from duplicate receipts he signed, but didn't deposit in the District's account.
- \$41,298 of District funds and \$13,724 of Booster funds undeposited checks/cash found at his residence.

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Perrysburg EVSD AOS Special Audit

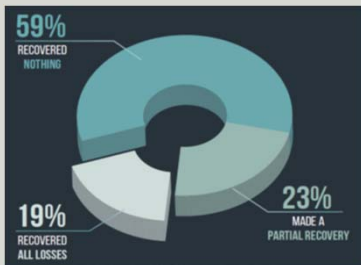
Deposit Substitution

Deposit Date	Receipt #	Posting Category	Source of Checks Substituted	Cash Substitution Amount
1/26/2010	40917	Athletics	Bobcat Athletic Boosters	\$7,000.00
4/23/2010	41305	Athletics	Bobcat Athletic Boosters	\$4,167.00
9/27/2010	41975	Athletics	Bobcat Athletic Boosters	\$2,471.00
1/3/2011	42478	Athletics	Bobcat Athletic Boosters	\$587.00
3/8/2011	42809	Tech Laptop Sales	Bobcat Athletic Boosters	\$800.00
4/29/2011	42918	Athletics	Bobcat Athletic Boosters	\$1,141.00
4/29/2011	42919	Athletics	Bobcat Athletic Boosters	\$1,594.00
6/11/2012	44631	Prom; Athletic Donation	Express Scripts	\$12,755.20
12/6/2012	45348	Athletics	Express Scripts; TeamHealth	\$38,370.82
2/28/2013	45674	Athletics	Multiple Checks	\$1,299.74
5/20/2013	45902	Athletics	Islamic Center of Gr Toledo	\$4,050.00
5/31/2013	45995	American Express	Express Scripts	
6/21/2013	46092	IT; Athletic Facilities	Express Scripts; ADK Check	
8/23/2013	46214	Athletics	ADK Check	\$265.00
9/11/2013	46323	Athletics	ADK Checks; PHS Boosters	\$7,658.20
10/17/2013	46508	Athletics	Express Scripts	\$30,005.51
1/31/2014	Multiple	Athletics; Clubs; IT	Express Scripts	\$17,288.75
3/31/2014	Multiple	Athletics; Donations	Multiple Checks	\$17,747.76
				\$169,220.98

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Recovery of Losses



Source: ACFE's Report to the Nations – 2018 Global Study on Occupational Fraud and Abuse - Government Edition

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Reporting Fraud


- Auditor of State's Fraud Hotline
 - R.C. 117.103
 - H.B. 66 (2012)
- Contact Auditor of State
- Call Local Law Enforcement
- Records Retention:
 - Suspects may try to destroy or steal records, so it's up to us to protect evidence.

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How to Report Fraud




Use our Mobile App*
[Find Out How](#)



Call the Special Investigations Unit
1-866-Fraud-OH
1-866-372-8364



E-mail your Tip*
fraudohio@ohioauditor.gov



Write a letter
88 E. Broad St. PO #1140
Columbus, Ohio 43215

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Convictions Involving Auditor of State Since 2011



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Since 2011, the Auditor of State's office has been involved in convicting more than 150 government officials of fraud or wrongdoing.

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Contact Information

Special Investigations Unit
88 East Broad Street
Columbus, Ohio 43215
E-mail: tmshockcor@ohioauditor.gov
tlridenbaugh@ohioauditor.gov

www.FraudOhio.com
Fraud Hotline: 1-866-FRAUD-OH
(614) 466-3786

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88 E. Broad St.
Columbus, Ohio 43215
Phone: (800) 282-0370

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