

Ohio Auditor of State Mary Taylor's

# Best Practices

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## Ohio Takes a Lead in the Fight Against Fraud

*Who commits fraud and why?*

*How do we detect and prevent it?*



Mary Taylor, CPA  
Ohio Auditor of State



# Mary Taylor, CPA

## Ohio Auditor of State

Dear Colleague,

The Ohio Auditor of State's office has a well-earned reputation as a national leader in fraud prevention and detection. We gained that reputation by successfully partnering with state and local entities across Ohio to root out the fraud, waste and abuse of taxpayer dollars. This issue of *Best Practices* focuses on fraud detection and prevention, spotlighting the Ohio Auditor of State's own national award-winning Special Investigations Unit for their efforts to combat white collar crime.

Our office has successfully identified more than \$11.6 million in fraudulent activity since I took office on January 8, 2007. As a result of our efforts to date, 32 individuals have been convicted of fraud-related crimes.

I am proud of this success, but there is more work to be done. This is why our office is embarking on a statewide public education campaign to raise awareness about our Fraud Hotline, our Fraud Web site and the trained anti-fraud specialists we have on staff who identify and investigate fraudulent activity everyday. Through our Fraud Hotline or Web site, Ohioans and public employees can make anonymous reports to 866-FRAUD-OH or [www.FraudOhio.com](http://www.FraudOhio.com) about allegations of the potential misuse of tax dollars without fear of retribution.

A recent national study by the Association of Certified Fraud Examiners demonstrates the value of an anonymous fraud hotline and other reporting tools we offer in the fight against government fraud, waste and abuse. The report reveals that more than half of all fraud detected in government is reported through tips. Our Fraud Hotline has received more than 2,500 calls since its inception in October 2003.

As Auditor of State, it is a priority to make sure that your tax dollars count. I feel very strongly that we must provide Ohioans with the necessary tools and information to help prevent and detect fraud.

The Ohio Auditor of State's office also offers many classes and training programs aimed at enhancing anti-fraud measures. To learn more about these resources, visit our Web site at [www.auditor.state.oh.us](http://www.auditor.state.oh.us). I also urge anyone suspecting fraud or misspending of public funds to contact our Fraud Hotline at 866-FRAUD-OH (866-372-8364) or go to our Fraud Web site [www.FraudOhio.com](http://www.FraudOhio.com).

I look forward to continuing our fraud prevention partnerships across the state and working on our efforts to raise awareness about how Ohioans can help our office root out fraud, waste and abuse in government.

Sincerely,

A handwritten signature in blue ink that reads "Mary Taylor".

Mary Taylor, CPA  
Ohio Auditor of State

# The Face of Fraud: Who Commits It and Why?

By Emily Frazee, Public Affairs Staff Writer

According to the Bureau of Labor Statistics, the average American worker spends 42.7 hours on the job each week. Because we spend the majority of our time working, and in the process developing relationships with our colleagues, it is startling when someone we know has been caught bilking the system. You see it all of the time on the evening news: the colleagues and acquaintances of a criminal saying, “I had no idea” or “They just didn’t seem like that sort of person.”

According to the *Association of Certified Fraud Examiners 2008 Report to the Nation*, people who commit workplace fraud are usually first-time offenders. This research shows that only seven percent of fraud perpetrators have had prior convictions. Since most people who commit occupational fraud do not have a criminal history, what drives them to this crime?

It is difficult to pinpoint one single reason why a person is lured into workplace fraud. Joseph Dervaes (CFE/CIA) sheds some light on what drives people to engage in fraud in his article “Protecting Public Interest: Fraud in the Government,” he reveals that there are three main factors that contribute to fraud: opportunity, motivation and rationalization.

Furthermore, the *2008 Report to the Nation* says that occupational frauds are typically committed by individuals in the accounting department (29 percent) or members of upper management (18 percent).

Although studies point to top level staff members, all members of an organization have the ability, or opportunity, to commit fraud.

Behavioral Red Flags Present During Fraud Scheme Sorted by Frequency			
Source: The Association of Certified Fraud Examiners 2008 Report to the Nation			
Behavioral Red Flag	# of Cases	% of Cases	Median Loss
Living beyond means	370	38.6%	\$250,000
Financial difficulties	327	34.1%	\$111,000
Wheeler-dealer attitude	195	20.3%	\$405,000
Control issues, unwillingness to share duties	179	18.7%	\$250,000
Divorce/ family problems	164	17.1%	\$118,000
Unusually close association with vendor/ customer	146	15.2%	\$410,000
Irritability, suspiciousness or defensiveness	130	13.6%	\$180,000
Addiction problems	128	13.3%	\$225,000
Past legal problems	83	8.7%	\$184,000
Past employment-related problems	76	7.9%	\$163,000
Complaining about inadequate pay	70	7.3%	\$132,000
Refusal to take vacations	65	6.8%	\$250,000
Excessive pressure from within organization	62	6.5%	\$388,000
Instability in life circumstances	47	4.9%	\$58,000
Excessive family/ peer pressure for success	40	4.2%	\$90,000
Complaining about lack of authority	35	3.6%	\$120,000

According to Dervaes, “all employees have a certain degree of opportunity within the organization. It’s unavoidable.” The best way to alleviate the potential for fraud is to increase the checks and balances within your organization. For example, Joseph T. Wells in his article “Why Employees Commit Fraud - It’s Either Greed or Need,” says that “To deter opportunity,

divide responsibility. If one person controls both the books and the assets, the ability to commit fraud is limited only by that person’s imagination.” Wells would recommend that responsibility for the books and the assets be given to two people, not just one.

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## The Face of Fraud: Who Commits It and Why?, Continued from page 2

The next factor that contributes to occupational fraud is motivation. Dervaes says that motivation “includes financial need, challenge and revenge.” An employee may be having personal financial problems and is short on money to pay the bills. The motivation to pay the electric company or to make their car payment is what drives them to steal. Another individual may be motivated by the mere challenge of stealing from their employer without getting caught in the act. Some employees may turn to fraudulent behavior for revenge or anger towards another staff member.

Finally, people who commit fraud rationalize their behavior. Dervaes says that people rationalize fraud by convincing themselves that they are entitled to the organization’s assets and feel no remorse about taking them. They feel overworked, underpaid and are convinced their employer owes them.

Each case of occupational fraud has its own opportunity, motivation and rationalization scenario. Allan Bachman (CFE) Education Manager at the Association of Certified Fraud Examiners says that, “If you talked to 10 people who committed fraud, they would all give different reasons. The bottom line is that they are dishonest and they rationalize it to make it OK.”

Regardless of the reasons behind the crime, fraud is extremely costly. The most visible cost of fraud is the amount of money stolen by the employee. The *2008 Report to the Nation* says that the median loss caused by occupational fraud was \$175,000 per theft and that more than one-quarter of the fraud they studied involved losses of at least \$1 million each. Other costs include the time and money used to investigate the crime and the lost hours of work

productivity. However, according to Bachman, the financial burdens associated with the crime, actual loss, cost of the investigation and litigation do not add up to one of the most damaging costs of fraud. Although it is intangible, the erosion of public trust can often be the most damaging cost suffered by an organization that has been victimized by fraud.

It is difficult for an organization to pick up the pieces when the confidence of your community is shattered. It can take months and even years to earn back the reputation your agency once had. Because the impact of fraud can be deep and long-lasting, it is important to stop fraud in your workplace before it becomes a problem. There are signs that can help you identify potential issues.

For example, the *2008 Report to the Nation* says that, “fraud perpetrators often display behavioral traits that serve as indicators of possible illegal behavior.” The report goes on to note that in 39 percent of cases the perpetrators were living beyond their means and that 34 percent were having financial difficulties.

According to the New York State Comptroller, there are many red flags that can signal possible theft by an employee. For example, the worker’s lifestyle changes and they suddenly have expensive cars, jewelry, homes and clothes. There could also be behavioral changes resulting from drugs, alcohol or gambling. Employees who are committing fraud

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### OHIO AUDITOR OF STATE MARY TAYLOR, CPA Special Investigations Unit Fraud Awareness and Prevention Classes

The following classes can be scheduled by request.  
For more information, or to schedule a presentation, please call  
toll free 800-282-0370 or e-mail [SIUtraining@auditor.state.oh.us](mailto:SIUtraining@auditor.state.oh.us).

#### Cyber Investigation 100

Identifying and Seizing Electronic Evidence (ISEE)

Law enforcement officers learn to improve their response to electronic crime scenes

#### Financial Crimes 101

Keys to Unlocking Financial Crimes

Participants gain hands-on experience working a simulated financial crime

#### Fraud Prevention 101

Fraud and Your Not-for-Profit Organization –  
Find it and Prevent it

Local non-profit groups such as youth sports organizations and church groups are provided with tips and techniques to significantly reduce the risk of fraud



# Spotlight: The Auditor of State's Fraud Busters

By Steve Faulkner, Public Affairs Staff Writer

A Google search of the phrases “special investigations unit” and “fraud hotline” results in a list of more than 40,000 internet resources designed to prevent and detect fraud. At the very top of that list is a link to Auditor of State Mary Taylor's Special Investigations Unit (SIU). That top ranking is quite an achievement considering that more than 500 million variables are weighed when ranking Google search results by level of importance.

Taking the top spot on Google is no coincidence. The Auditor of State's Special Investigations Unit is Ohio's premier fraud prevention and detection resource. The unit is dedicated to providing local officials and Ohio citizens with the tools to report allegations of theft and to root out the fraud, waste and abuse of public tax dollars. SIU investigators partner with local law enforcement to thoroughly investigate white collar crimes and help prosecutors build cases that can send thieves to prison.

For example, SIU investigators recently worked with the Hardin County Sheriff's office to prosecute a former employee of the County Treasurer's office for theft, tampering with records and forgery. The presiding judge in the case praised SIU investigators for a job well done and referred to the evidence presented during the jury trial as “overwhelming.”

“I'm not sure I've seen a case where the evidence was so clear-cut,” said Hardin County Common Pleas Court Judge William D. Hart.

This is encouraging feedback for Ohio Auditor of State Mary Taylor. Her office employs a team of investigators professionally trained to prevent and

detect fraud and also to train others how to do the same. The unit is led by chief investigator Randy Meyer, who has more than 20 years of state and local crime-fighting experience. Meyer is also certified by the National White Collar Crime Center (NW3C) to train other law enforcement officers about ways to properly investigate financial crimes.

*Taylor's office has conducted and released 20 special audit investigations in the past year, identifying more than \$11.6 million that is owed back to Ohio taxpayers.*

Providing localized training is a significant component of the work SIU investigators conduct throughout the state. Last year, the unit began offering a series of training seminars for local law enforcement officers investigating financial crimes committed electronically. The three training classes are designed to provide officers with the latest information to investigate and prevent white collar crimes.

“Many local police departments and other law enforcement agencies simply lack the funding to provide the latest white collar crime training,” said Meyer. “Funding provided by grants we receive from the office of Ohio Criminal Justice Services allows the Auditor of State's office to provide high quality training to local law enforcement at little or no cost to them.”

The National White Collar Crime Center recently honored Ohio Auditor of State Mary Taylor with the 2008 NW3C Member Agency Award for

Excellence. Taylor's office was selected for the award based on outstanding community achievements in providing localized training and participating in numerous partnerships with law enforcement at local, state and national levels.

“The Ohio Auditor of State's office has demonstrated leadership in educating law enforcement throughout the state of Ohio,” said Don Brackman, director of the National White Collar Crime Center in Fairmont, West Virginia. “They have dedicated personnel and allocated resources to further NW3C's mission to provide training, investigative support and research to agencies and entities involved in the prevention, investigation and prosecution of economic and high tech crime.”

Allegations of fraud received from the Auditor of State's Fraud Hotline, Web site or auditors working in the field are presented to Auditor of State's Special Audit Task Force for review. The task force receives approximately five potential cases of fraud each week and decides how to proceed with each new allegation.

Once a special audit investigation is approved, investigators with the Auditor of State's office begin gathering evidence, interviewing witnesses and issuing subpoenas to obtain related financial documents. The process is time consuming, as investigators sort out the details and follow the financial crime trail, oftentimes electronically.

Last year, the village of Lockland in Hamilton County was rocked by allegations of theft in the village

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## The Auditor of State's Fraud Busters, Continued from page 4

mayor's court. The Auditor of State's office took immediate action. Investigators and auditors conducted a thorough review of thousands of mayor's court documents, including nearly 6,000 handwritten customer receipts, more than 8,000 individual court files and records from 21 months of banking activity. Investigators also interviewed more than a dozen witnesses and partnered with the county prosecutor's office to issue multiple subpoenas to determine the amount and extent of the theft.

"Lockland is so unique because while we were there investigating allegations of fraud against one employee, a second employee in a separate department confessed to her own fraudulent activity," said Meyer.

Once complete, the investigation had identified two employees who established various schemes to defraud the village out of more than \$315,000. Both pleaded guilty to charges that included theft in office, forgery and tampering with records. Fraud, however, is not isolated to

government organizations. Private-sector corporations are increasingly developing their own special investigations units as a way to crack down on fraud. For example, "Global Securities and Investigations" is the anti-fraud section at financial giant J.P. Morgan Chase. The unit is headquartered in Columbus, Ohio, and is responsible for investigating fraudulent activity for company operations nationwide.

Joseph Trapp is a certified fraud examiner and the vice president of "Central Investigations" – a division of the fraud unit at J.P. Morgan Chase. His team investigates various types of check fraud, including forgery and counterfeiting, said Chief Investigator Meyer.

"Our shareholders want to know that we are identifying fraud rings and helping to prevent significant financial losses to the company," Trapp said.

Trapp's job is focused not only on protecting the financial sustainability of the corporation, but also on

ensuring shareholders that his investigators are helping to protect the bottom line. The Auditor of State's office has a similar focus. While the Special Investigations Unit may not be answering to a company's shareholders, Auditor State Mary Taylor and her team of investigators are providing accountability to Ohio's taxpayers who demand to know that public funds are spent legally and appropriately.

Their efforts are working. Taylor's office has conducted and released 20 special audit investigations this year which have identified more than \$10.9 million that is owed back to Ohio taxpayers. The Auditor of State's Special Investigations Unit also serves as a role model for others to follow. The unit receives phone calls from officials in other states asking about the office's SIU operations, fraud reporting system and how it all comes together to root out the fraud, waste and abuse of public tax dollars.

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## The Face of Fraud: Who Commits It and Why?, Continued from page 3

may refuse to take vacation or sick leave. Also, areas of an organization where fraud is occurring may have high employee turnover or lack proper segregation of duties.

Additionally, there are red flags that signal possible theft by the management in an organization. When a high level official is stealing, they may engage in disagreements with auditors and refuse to provide them with information. They may also frequently change bank accounts or have an excessive number of checking accounts. Another sign of possible fraud is illogical financial transactions and missing documentation.

Furthermore, you can develop a proactive office-wide strategy to protect your organization from fraud.

Bachman says that it is important to create an understanding of fraud among your workforce. Your staff should know that it can occur in any workplace – including their own. You should also do your best to prevent fraud from occurring by identifying risks within your organization. Do you have the proper controls in place?

The next step is to deter theft from occurring. Inform your employees that fraudulent activity will not be tolerated and that individuals who steal funds will be prosecuted for their actions. Finally, make sure that your auditors are educated about the latest fraud schemes and fraud detection techniques. Your audit staff should feel empowered to investigate when they identify a potential problem.

Unfortunately, no matter how hard you work at fraud prevention, your workplace can still be victimized. Criminals are always coming up with new ways to cheat the system.

Auditor of State Mary Taylor's Special Investigations Unit (SIU) is available to assist with any questions you may have on this topic. The SIU's toll free hotline number is 866-FRAUD-OH and their Web site is [www.FraudOhio.com](http://www.FraudOhio.com). Public employees are encouraged to call the Auditor of State's Fraud Hotline if they suspect fraud, waste or abuse. The office has experienced professionals on staff to review anonymous complaints and determine whether an investigation is warranted.

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# Taylor Has Plan to Protect Public Pocketbook

Staying true to her commitment to fight fraud in Ohio's government offices and agencies, Auditor of State Mary Taylor recently announced a legislative proposal to help protect taxpayers from the harmful financial effects of fraud, waste and abuse.

The Ohio Fraud Reporting System requires the Auditor of State to maintain a system for reporting allegations of fraud, waste or abuse. The proposal also provides whistleblower protections to public employees who report suspicions of fraud.

"This legislation is an important step forward in our fight against government fraud and will help protect taxpayers from the high costs of misspending and corruption," Taylor said.

According to a recent study by the Association of Certified Fraud Examiners, more than 50 percent of all government fraud is detected by tips to authorities. The report also found that the average cost of government fraud is reduced by more than half for organizations who maintain an anonymous fraud hotline.

Fraud allegations can be made anonymously by calling the Auditor of State's Fraud Hotline at 866-FRAUD-OH (866-372-8364) or by completing an online complaint form at [www.FraudOhio.com](http://www.FraudOhio.com).



## Coming in 2009: *Best Practices* Electronic Edition

### Help Us Update Our Distribution List

*Best Practices*, the Auditor of State's quarterly newsletter, will soon introduce a new paperless, postage-free electronic edition, distributed to readers by e-mail. Printed copies will be available if you wish to continue receiving the *Best Practices* paper edition in the mail.

As we make this change, we are rebuilding our distribution list to eliminate duplication and outdated addresses.

Please fill out and send the card found inside this issue or e-mail your contact information to: [bestpractices@auditor.state.oh.us](mailto:bestpractices@auditor.state.oh.us).

#### Questions?

Contact the Auditor of State's Office – Public Affairs Division at (614) 644-1111.

PLEASE NOTE THAT THE CHANGE WILL OCCUR LATER IN 2009

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