

May 9, 2024

PERSPECTIVE

CHANGES EVERYTHING.

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Reducing Fraud Risk in Your Organization

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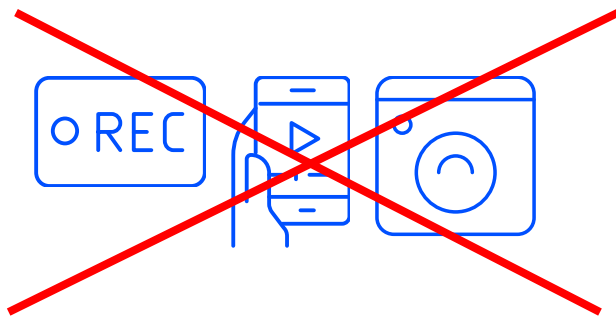
Welcome

Thank you for joining us!
We hope today's training meets your expectations.

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Overview

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Partner, Fraud & Forensics
Wipfli LLP

- 167 years in accounting
- Packer Ticket Season Holder
- 1979 Graduate of NIU

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- Masters in Forensic Accounting
- 16 years in law enforcement
- 8 years military, Security Officer 415th Civil Affairs Battalion
- Certified Workplace Violence Prevention Instructor
- Certified Instructor for Active Shooter situations

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“Corruption, embezzlement, fraud, these are all characteristics which exist everywhere. It is regrettably the way human nature functions, whether we like it or not.”

– Alan Greenspan

Corruption, Economic Development and Poverty Alleviation – The Diplomat

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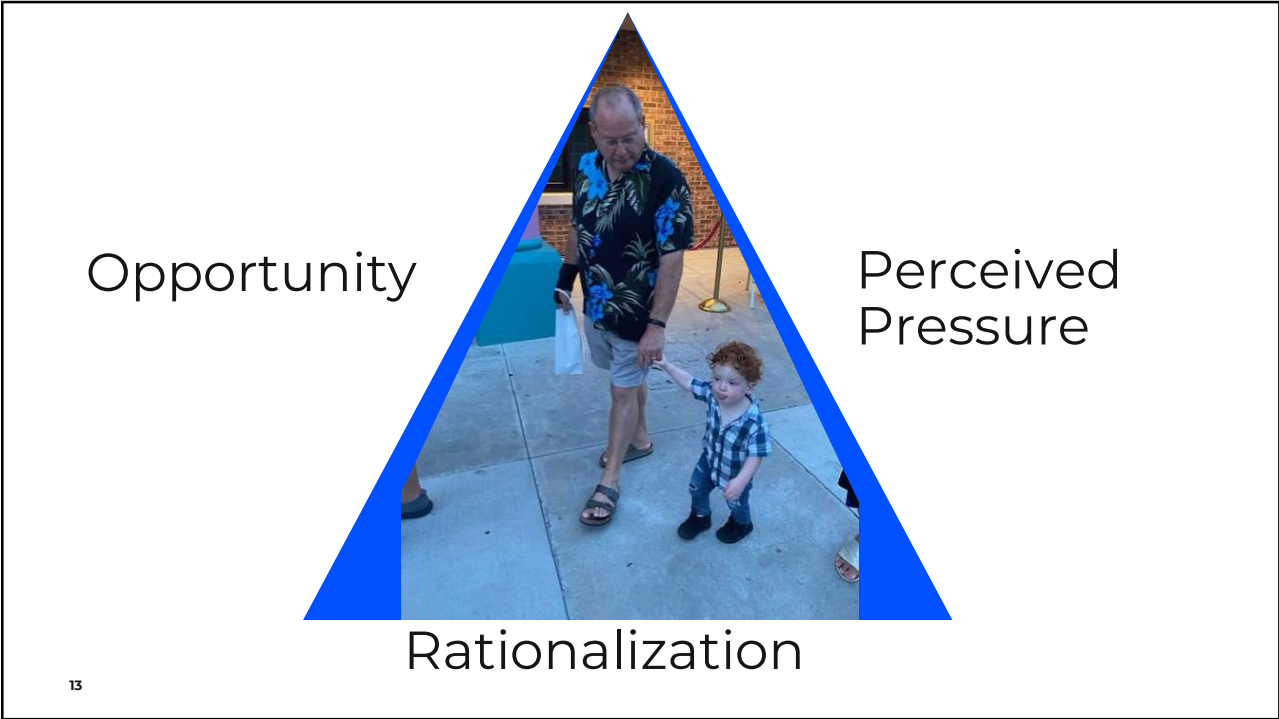
What is Fraud?

Fraud refers to intentional deception or dishonesty for personal gain or to cause harm to others. It involves deceptive actions, misrepresentations, or false statements made by an individual or a group with the intent to deceive someone else or to manipulate a situation for their own benefit.

Fraud can occur in various contexts, including financial transactions, online activities, insurance claims, identity theft, and more.

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Fraud

Intentional deceptive action designed to achieve a gain.

- Intentional
- Misappropriations
- Theft

Professional Incompetence

Acts or omissions that demonstrate a lack of knowledge, skill or judgment.

- No intent
- Misclassifications
- No personal gain

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Mary Story

- Failed to make tax payments
- Changed where mail went
- Paid penalties to make up payments
- Changed the address of the entity to a PO Box near her residence
- Never stole a thing

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Martin Shkreli



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Change in work environment	Change in internal controls
<ul style="list-style-type: none">▪ More employees are working remotely creating opportunity.▪ Revenue recognition becomes a pressure.▪ Loss of income, saving jobs of themselves or coworkers, and keeping the company financially afloat provide the rationalizations.	<ul style="list-style-type: none">▪ Adding remote access to financial accounts.▪ Changing the method of payment to a vendor.▪ A lack of review, either by management or another coworker.

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**Post Pandemic
Financial World**

Fraud has increased

How did COVID-19 contribute to Occupational Fraud:

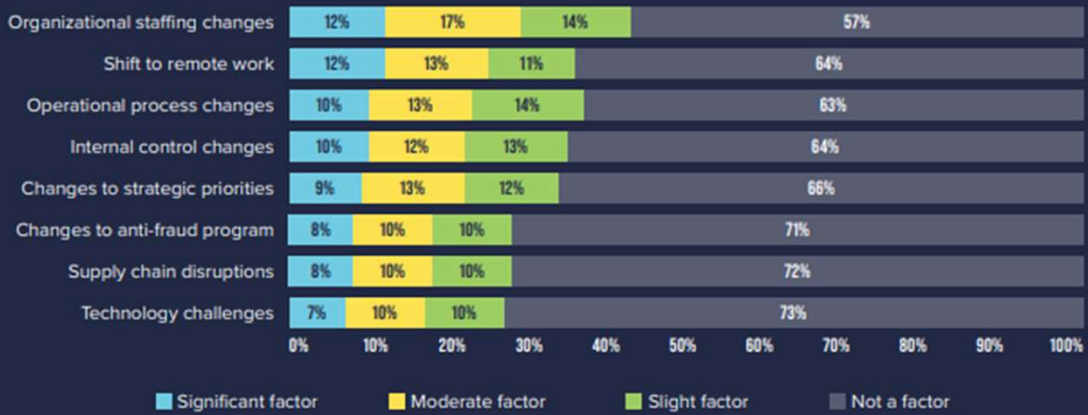
- Organizational staffing changes (42%)
- Operational process changes (39%)
- Internal control changes (39%)
- Shift to remote work (38%)
- Technology changes (30%)
- Supply chain disruptions (30%)

Source: 2022 Report to the Nations, ACFE, pg. 40

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TO WHAT EXTENT DID PANDEMIC-RELATED FACTORS CONTRIBUTE TO OCCUPATIONAL FRAUDS?



Source: ACFE – 2024 Report to the Nations.

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COVID-19

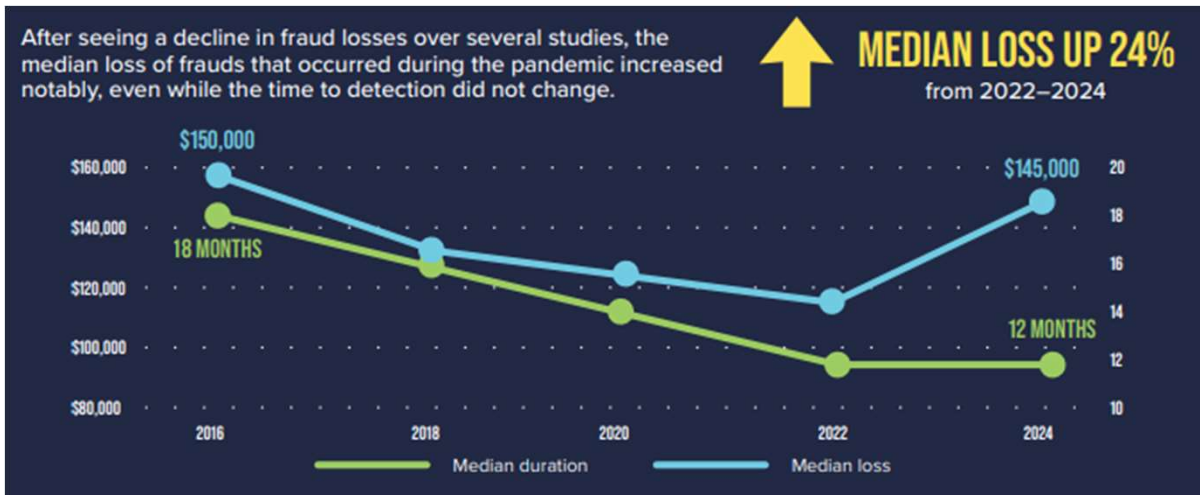
How has the pandemic changed your world?

Here are some ways that COVID-19 has affected our society and our internal controls:

- Fewer staff
- Remote staff
- Revised approval processes
 - Approvals by email only (no real signature needed)
- Less oversight
- Heightened risk of cybercrimes

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Source: ACFE – 2024 Report to the Nations.

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Fraud #'s in CAPs

Louisiana Association of Community Action Partners

- Kiamani Beasley, **Finance Director**
- Responsible for **overseeing** the financial integrity of the organization, including the accounting and distribution of **federal funds**.
- **Sept 2011 – November 2011**
- **\$50,858** misappropriated
- Funds used for computer software training and weatherization services.
- Sentenced to 12 months +1 day.

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Fraud #'s in CAPs (cont.)

Community Action of Minneapolis

- Bill Davis, **CEO**
- **2011-2013**
- **\$800,000** misappropriated
- Trips to Bahamas, Las Vegas, Key West, and Niagara Falls.
- Luxury sedan
- Paid son \$140k for a no-show job at an **ice cream shop**
- 16 counts of theft and fraud
- Sentenced to 4 years.

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Fraud #'s in CAPs (cont.)

Miami Valley Community Action Partnership (OH) administered

- Antoine Draines, **Landlord**
- Freedom for Living Property Management
- **June 2020 – December 2020**
- **\$150,000** misappropriated
- Program was funded with CARES Act funds for rental assistance.
- **Program was created quickly** to get aid to people and prevent evictions and **lacked safeguards.**
- **Tenant notified** newspaper, newspaper did investigation
- Sentenced to 18 months

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Real or Fiction?



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Feb 2004 – a student reporter given information that a woman had stolen \$250k from the school district and was allowed to resign without criminal charges.

Her investigation led to finding out the amount stolen was \$250k and the woman was the assistant Superintendent for business, Pamela Gluckin.

Additional investigations show that the Superintendent, Frank Tassone, was a co-conspirator and the total stolen was \$11.2 million and at least 26 other officials benefited from the crime.

Tassone was sentenced to 4-12 years in prison. Gluckin was sentenced to 3-9 years.

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Common types of fraud in CAP's

- **Corruption** – misusing authority or position for personal gain within the organization. – 41%
- **Misappropriation** – misuse of organizational assets. – 30%
- **Expense Reimbursement** – fraudulent expense claims or inflated expenses. 23%
- **Cash on Hand** – cash theft – 17%

*Notice totals will be over 100% because often times multiple fraud are occurring simultaneously.

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Source: ACFE – 2024 Report to the Nations.

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How bad is it?

Asset Misappropriation, Corruption, and Financial Statement Fraud are the most common types of fraud committed.

\$117,000

Median loss before detection

12-19 Months

Average length of fraud before detection

5%

Annual revenue lost to fraud per organization

85%

Of fraudsters displayed at least one red flag

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Source: 2022 Report to the Nations, ACFE

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Opportunity

Opportunity is the only leg of the triangle that an employer has control over.

This is done through effective internal controls.

Internal Controls

Control Environment

Risk Assessment

Internal Control Program

Control Activities

Monitoring Processes

Information + Communication

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Fraud Prevention Blueprint

Assess where you are vulnerable.

It is necessary to know where your company is susceptible to fraud.

Mitigate fraud with controls.

Implement controls, policies, and procedures to reduce the risk.

Constantly monitor and review.

This must be done repetitively. Fraud adapts, so must the controls.

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Easy & Quick Changes

Utilize Bill Pay Software

Automate the bill paying process.

Use 4 Factor Positive Pay

Simple and effective way to prevent check fraud.

Mandate policy adherence

Overriding or ignoring internal controls is a leading factor in fraud occurrences .

Increase management reviews

Having management reviews and letting employees know that management is watching is one of the easiest controls.

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Invest in your financial security

Next steps to improve your internal controls.

Tip Line

Provide a way to report fraud.

Ethics Training

Set company standards.

Fraud Training

Explain why fraud prevention is important.

Internal Control Assessment

Have your internal controls reviewed and tested.

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Audits and follow up on management recommendations

- Audits are not designed to find fraud.
- Do not rely on them for that.
- Audits will tell you where to improve.
- Review the deficiencies and weaknesses.
- Work through the management letter.
- Make changes and improve your organization.

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The best defense against fraud is to prevent it before it happens.

- Transparency and awareness are necessary to prevent fraud.
- Ensure checks and balances are built into internal controls.
- Regularly review financials.
- Control your master vendor file and require confirmations on any changes.
- Require cross-training so no one person has hegemony on the financials.
- Utilize technology.
- Implement and enforce policies and procedures.
- Provide adequate training.

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Takeaways

Establish a strong tone at the top

Have an ethics policy

Review it and have it acknowledged

Make it culture

Implement policies and procedures

Implement policies and procedures.

Provide policies and procedures to all employees.

Review them annually.

Train your employees

Ethics

Fraud Awareness and Prevention

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More Takeaways

Have regular, MEANINGFUL management reviews

Review and ask questions prior to signing off

Conduct and correct annual financial audits

Lowest bid may not be the best option

Complete follow up on all recommendations

Have an outside agency conduct assessments

Fraud risk assessment – overview (non-invasive, questions)

Internal Control Assessment – In-depth (walk me through the process, show me, prove it)

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Scooby the Fraud Fighting Pup!



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Please take a moment to fill out your evaluation.



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Thank You

Thank you for your participation.
We hope today's training met your expectations.

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If you have questions, please do not hesitate to reach out.

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