



State of Arizona
Office of the Auditor General

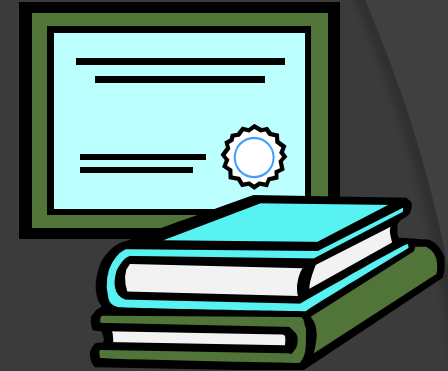
SPECIAL INVESTIGATIVE UNIT



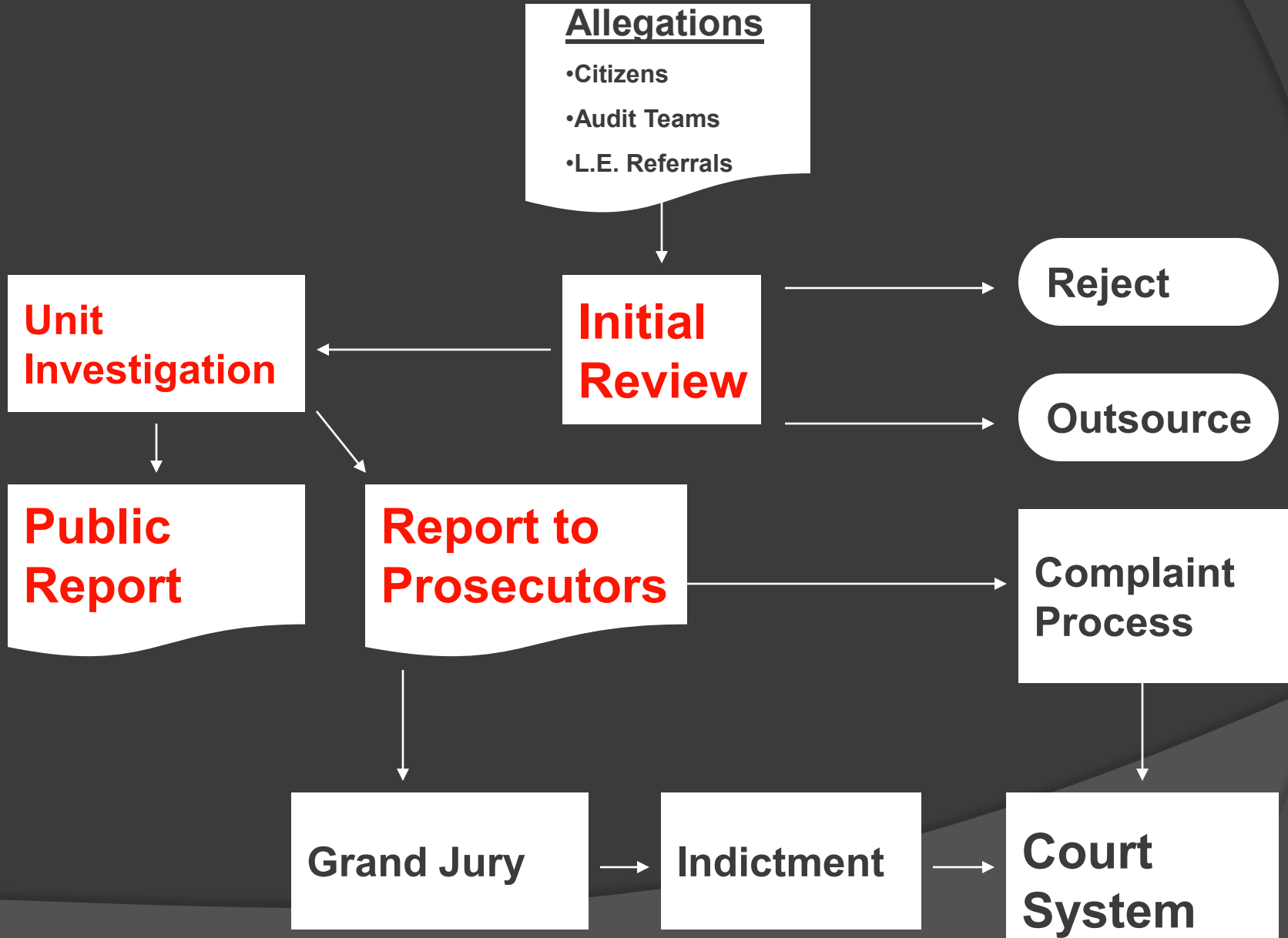
Presented by:
Lindsey Perry, CPA, CFE
Manager, Special Investigative Unit

Special Investigative Unit

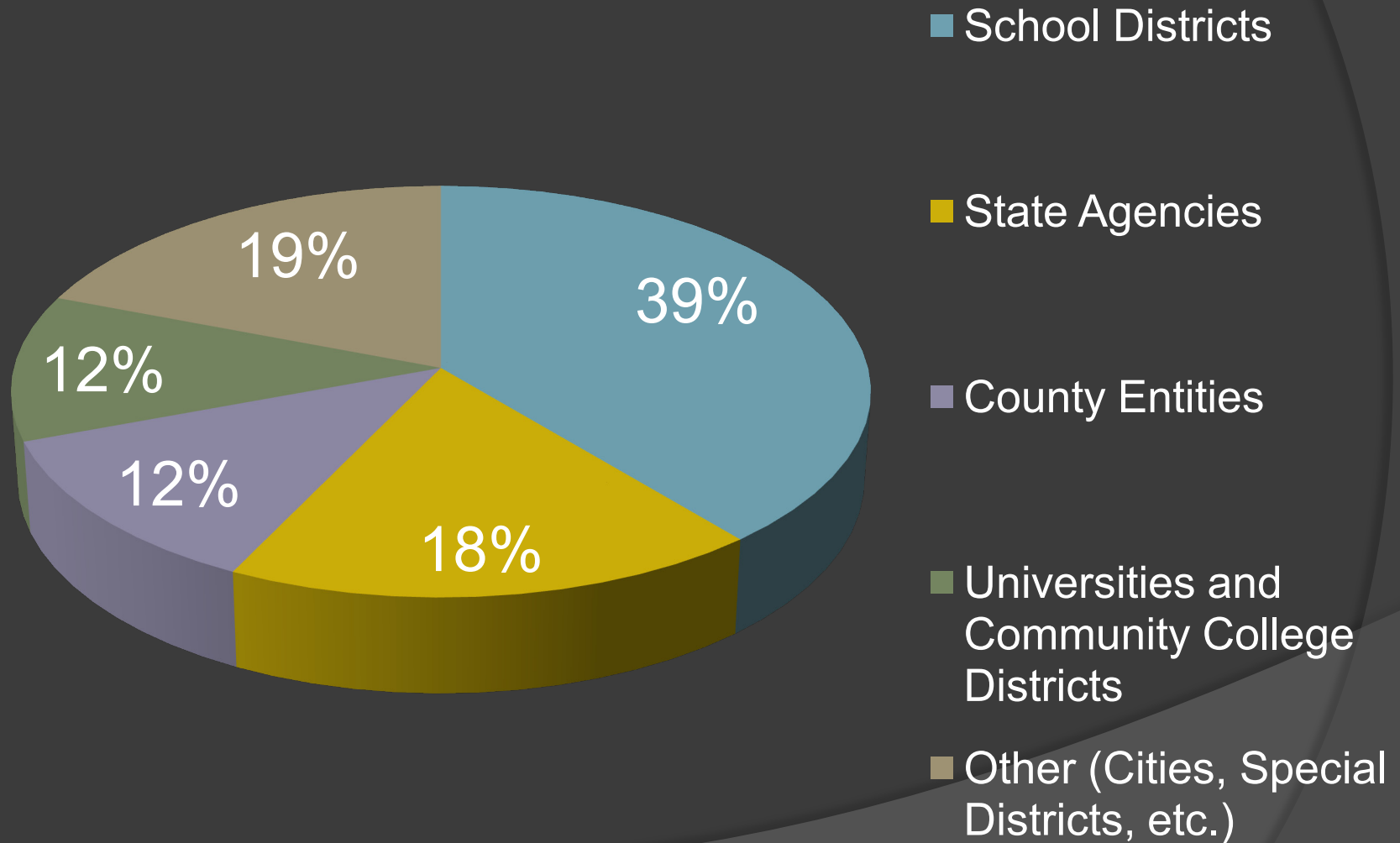
- Established 1988
- Staff credentials: CFE, CPA
- Fraud, waste, and abuse of public monies
 - Conduct investigations
 - Issue reports
 - Assist law enforcement agencies and prosecutor's office
 - Serve as a resource for other divisions and governmental entities



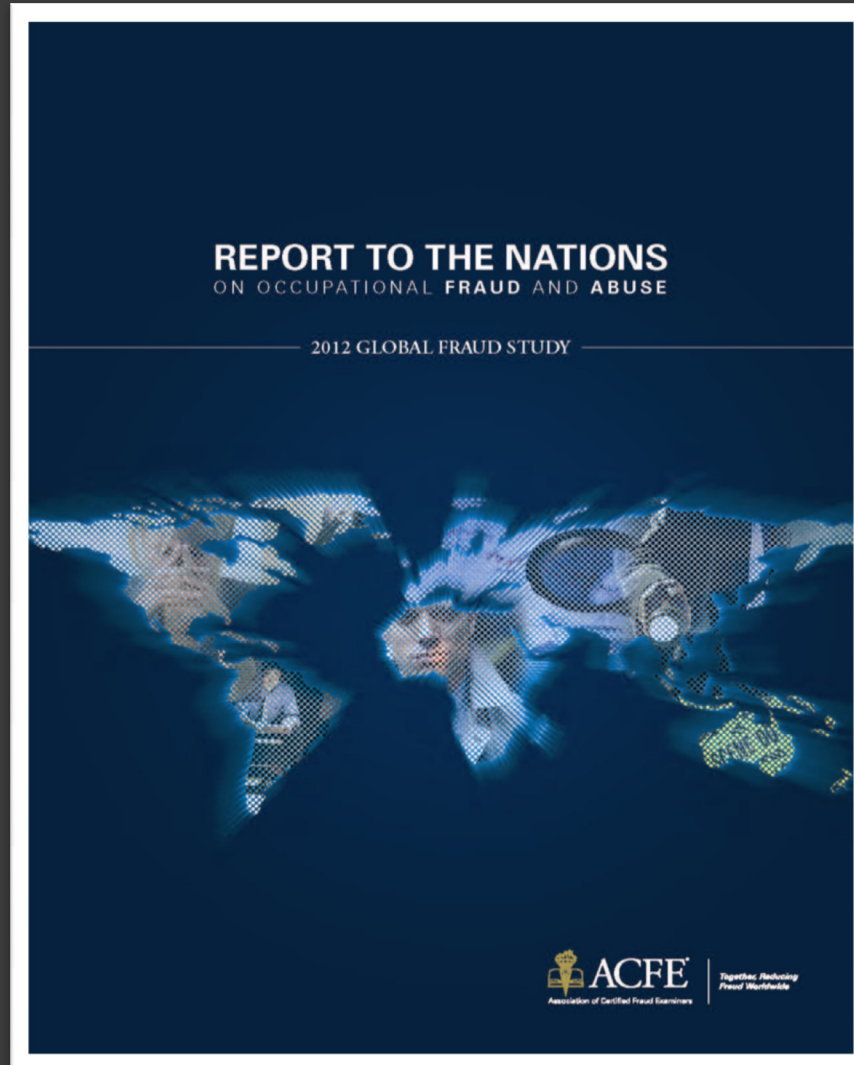
The Investigation Process



Fraudulent Activity Reported Fiscal Years 2003-2012



Current Trends and Statistics



Report to the Nations on Occupational Fraud and Abuse: 2012 Global Fraud Study
©Association of Certified Fraud Examiners, Inc. www.acfe.com

Survey Respondents

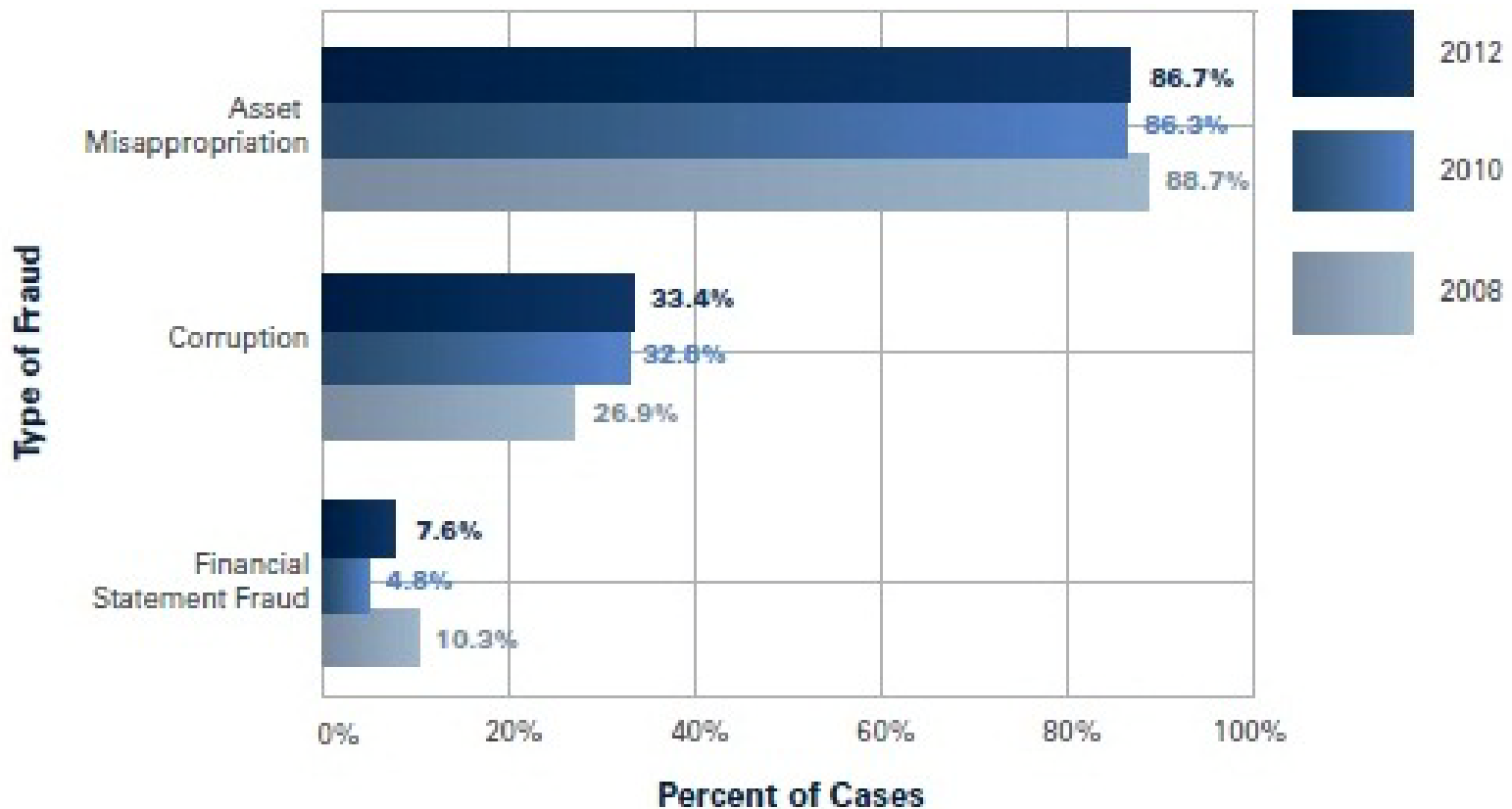
- December 2011
- 1,388 responses
- Narrative of largest fraud case
- 85 questions
- More than half fraud examiners/investigators or internal auditors
- 13% accounting or finance professionals
- 12% law enforcement
- 7% corporate security or loss prevention

The Cost of Occupational Fraud

- ⦿ Average organization = 5% revenues lost to fraud
- ⦿ \$3.5 trillion globally
- ⦿ Estimate only (opinions of anti-fraud professionals)

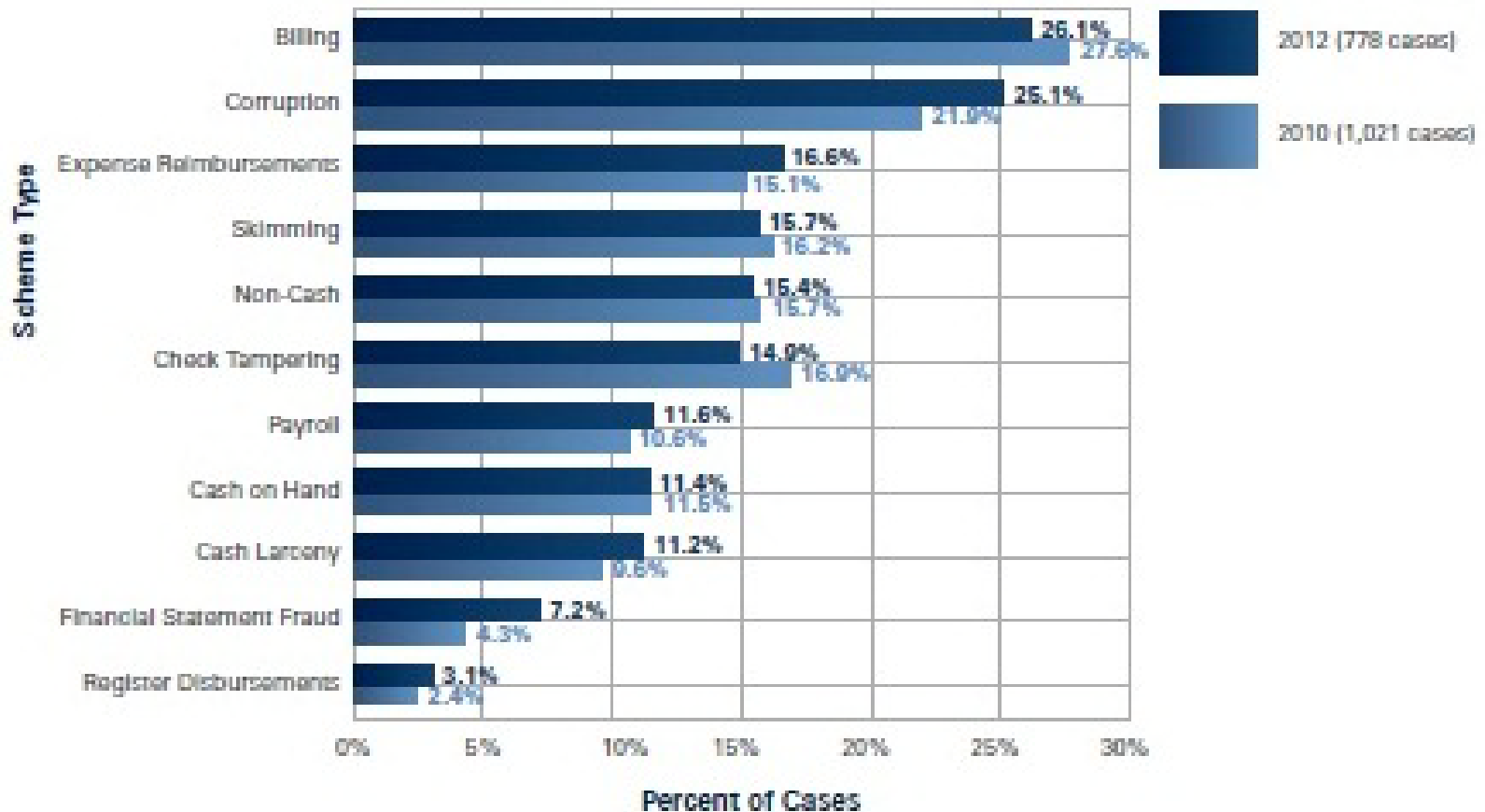
Fraud by Category

Occupational Frauds by Category — Frequency



Methods of Fraud

U.S. Cases



Perpetrators

- ① Strong correlation between position of authority and losses caused by fraud
- ① The higher the position, the longer to detect the fraud
- ① Much higher median losses

Position

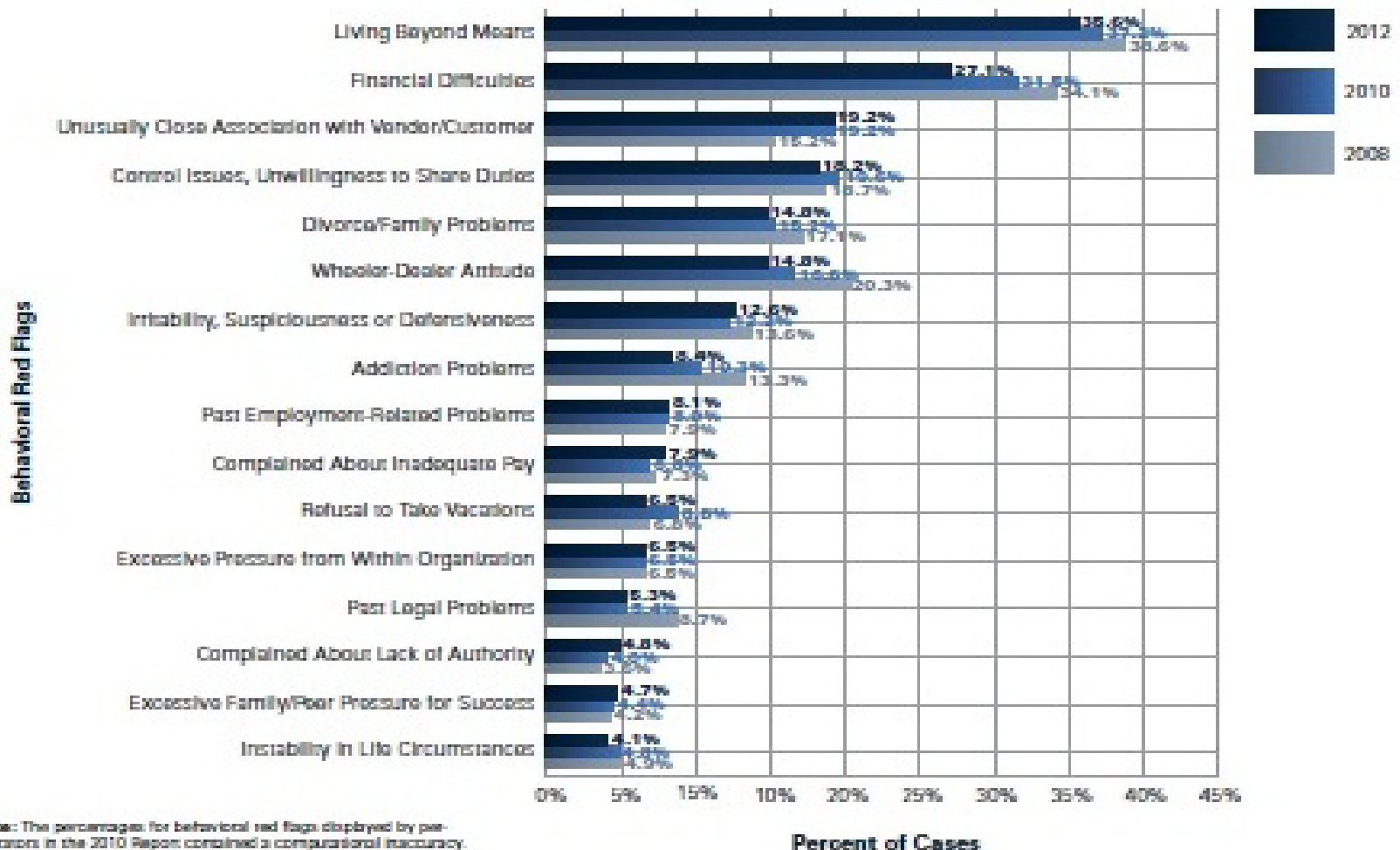
Position of Perpetrator — Median Loss



*"Other" category was not included in the prior years' Reports.

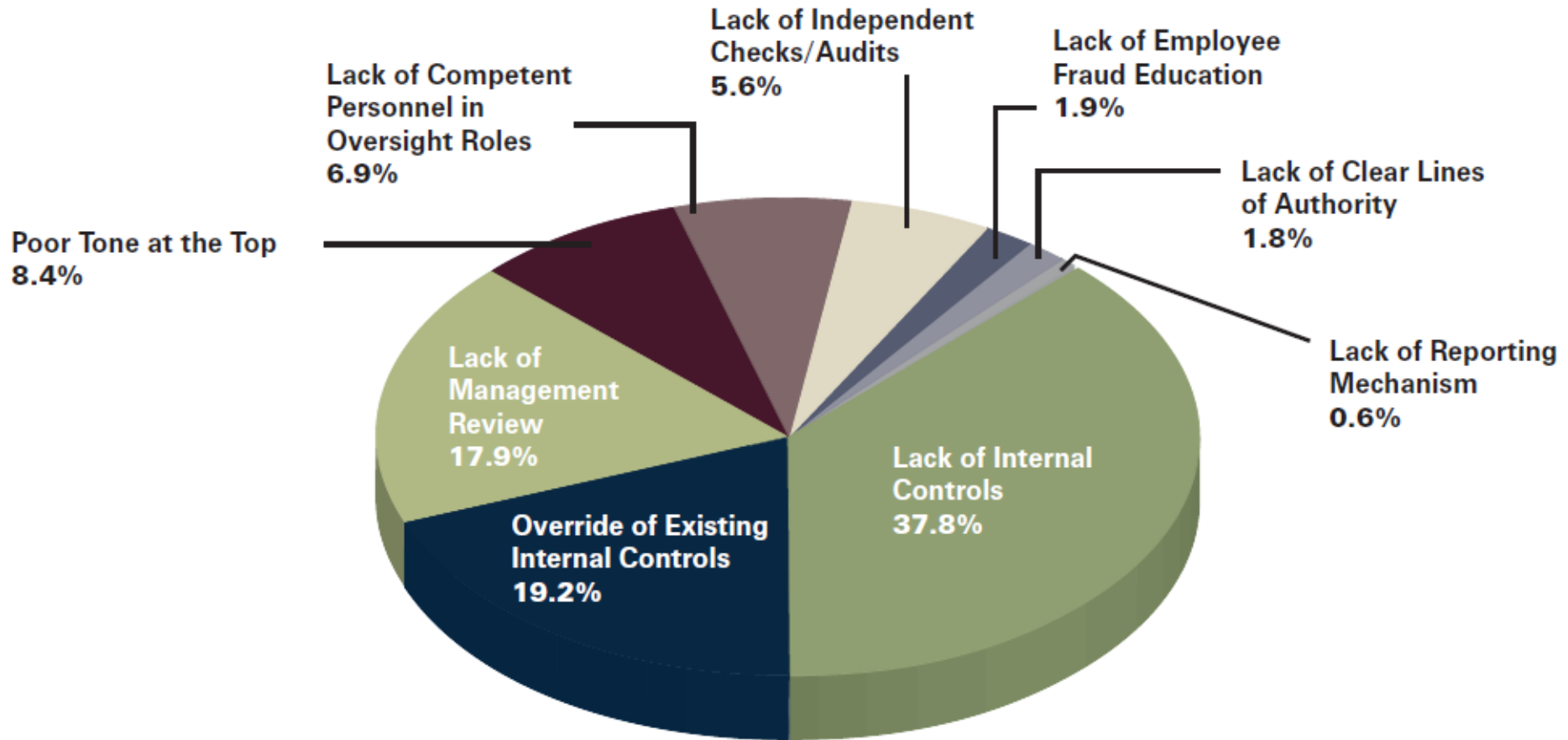
Red Flags

Behavioral Red Flags of Perpetrators



Control Weaknesses

Primary Internal Control Weakness Observed by CFEs



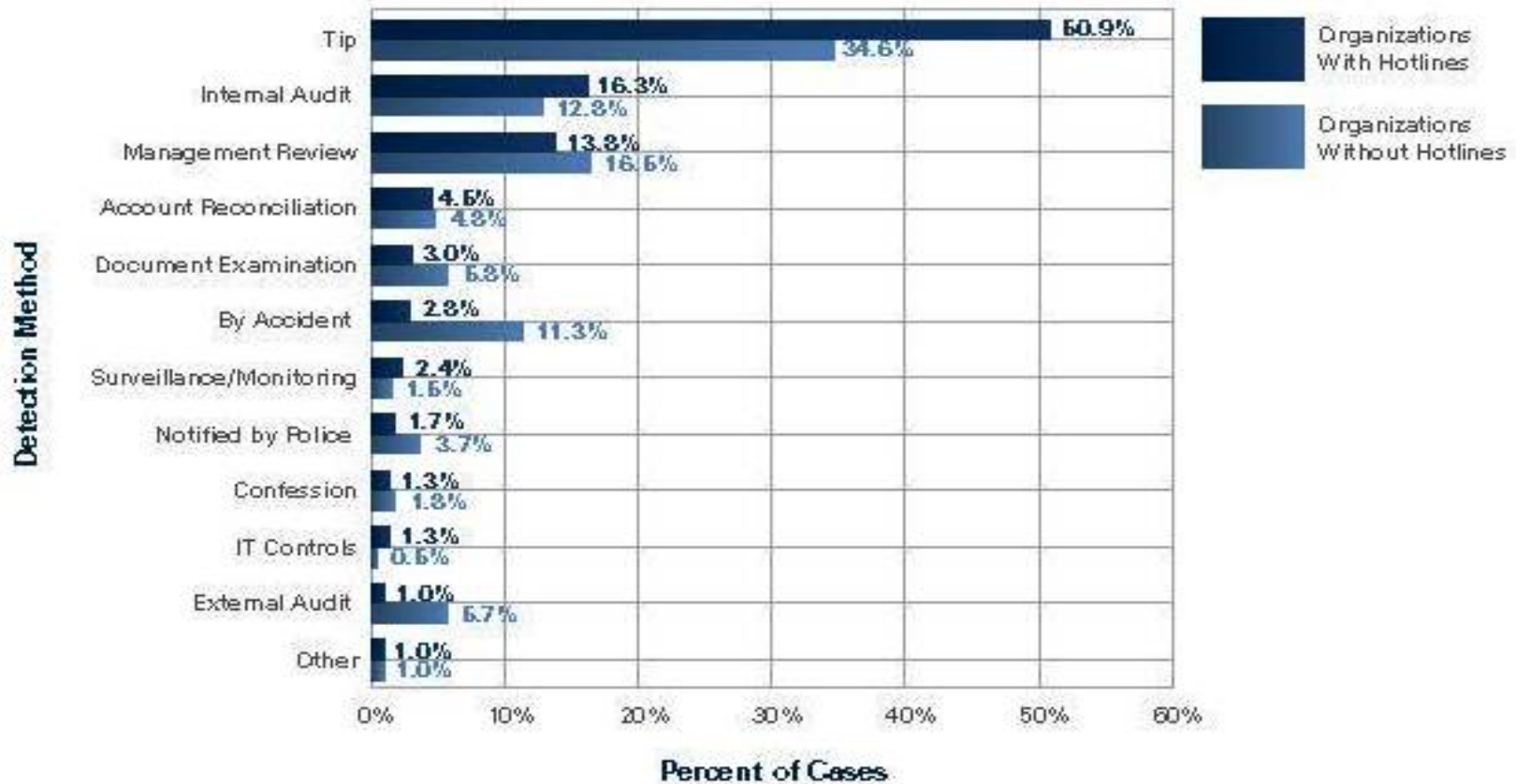
Detection of Fraud Schemes

- Tips
- Management review
- Internal audit
- By accident



Fraud Hotlines

Impact of Hotlines



Examples for Eliciting Tips

Fraud Notification Request - Message (HTML) (Read-Only)

File Message McAfee E-mail Scan Adobe PDF

From: Duffek, Bryant
To: Duffek, Bryant
Cc:
Subject: Fraud Notification Request

Sent: Thu 1/31/2013 4:20 PM

**ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

Re: Baboquivari Unified School District No. 40

Dear Dr. Siqueiros,

In your management position, you know how important it is to protect your district's monies and property. The governing board, district employees, and the public have placed trust in you to do so. Ensuring that the district has strong internal controls helps you prevent and detect theft or misuse of those monies. At times, unfortunately, you may become aware of a situation in which someone may have misused or abused district monies or property. Investigating these kinds of situations is most effective when information is received about possible theft, misuse, or other illegal acts as soon as possible after the allegations of crimes become known to you.

As part of our duties, the Office of the Auditor General maintains a Special Investigative Unit that investigates allegations of fraud, waste, conflict of interest, and abuse of public monies. Members of the unit specialize in investigating financial crimes and work with law enforcement agencies when appropriate. Our Office may investigate the allegations, provide a report of our findings, assist in prosecution, and provide school districts with recommendations for corrective actions. We may also refer certain investigations to appropriate authorities.

Therefore, we ask you to notify our Office of possible fraud, theft, or other illegal acts affecting public resources at the time you suspect and have evidence that a crime may have occurred. You can call our Office at (602) 553-0333 and ask to speak to a member of the Special Investigative Unit.

Sincerely,

Debbie Davenport, CPA, CFE
Auditor General
2910 N. 44th Street, Ste. 410
Phoenix, AZ 85018
Phone: (602) 553-0333

Fraud Alerts



The Auditor General is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

TO OBTAIN MORE INFORMATION

(602) 553-0333



or by visiting our Web site at: www.azauditor.gov

Contact person: Lindsey Perry



2010

September • Alert 10 - 03

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2010

December • Alert 10 - 04

Date

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The Office of the Auditor General is a legislative agency under the direction of the Joint Legislative Audit Committee. Our mission is to improve state and local government operations and accountability by independently providing the Legislature, government decision-makers, and the public with timely, accurate, and impartial information, relevant recommendations, and technical assistance. This fraud alert addresses purchases made through a purchasing cooperative and recommends due diligence procedures to help ensure that cooperatives are adhering to laws and regulations, providing equitable pricing, and passing along vendor discounts.

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Contact person: Lindsey Perry



2011

May • Alert No. 11-01

Fraud Alert—Purchasing Cooperatives

Due Diligence Is Imperative

Overpayments, higher prices, and substituted products—All governmental entities and charter schools in Arizona that are not exempted under statute or charter agreement are responsible for ensuring that purchasing, whether independently or through a cooperative purchasing agreement, is done in accordance with state statutes, the Arizona Administrative Code, and the entities' own competitive purchasing policies. We have noted serious problems with purchasing cooperatives, including one that:

- Oversaw vendors that substituted unauthorized products and

- overcharged nine Arizona school districts more than \$175,000
- Allowed some school districts to pay prices as much as 33 percent higher than other entities' for the same products
- Received up to \$60,000 per year in vendor discounts, which it kept and failed to pass along to the school districts

When purchasing through a cooperative agreement, adequate due diligence is critical to ensure the cooperative is complying with applicable laws and regulations, and conducts business in an ethical manner.

How Can You Protect Your Entity?

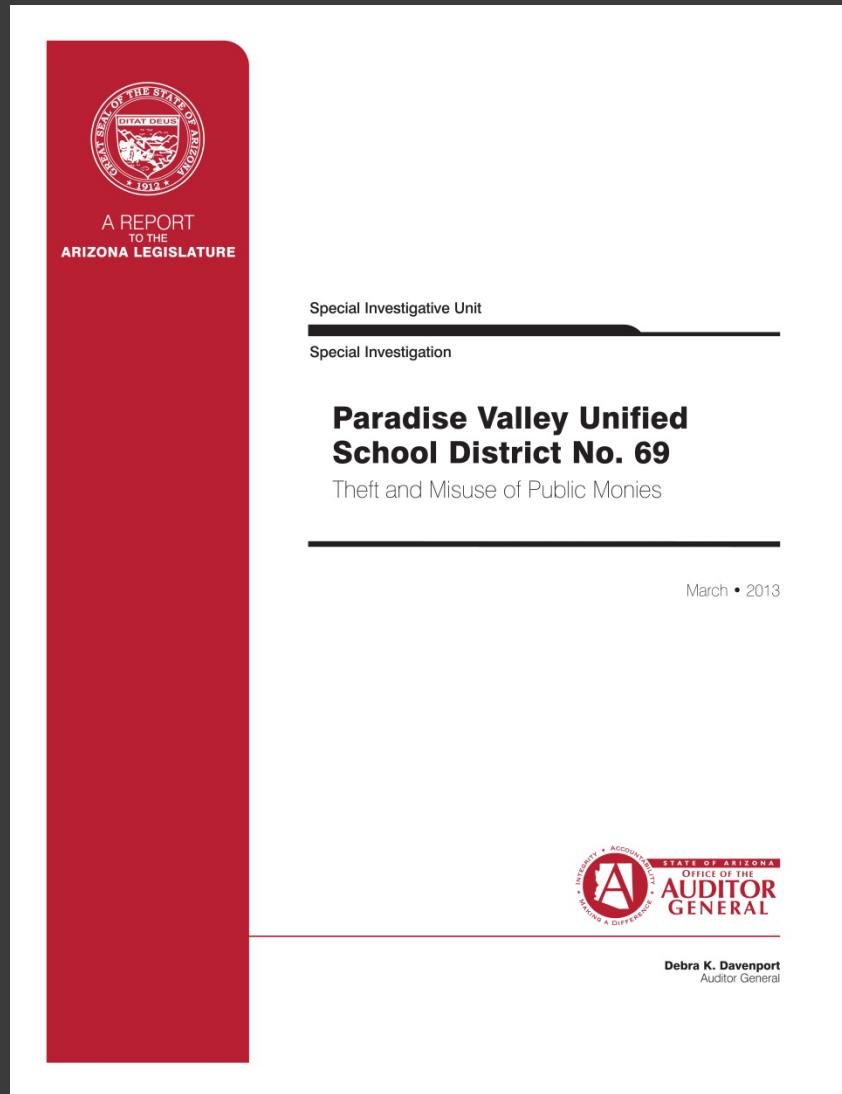
You can implement some due diligence policies and procedures to help ensure that purchasing cooperatives are adhering to laws and regulations, providing equitable pricing, and passing along discounts. Specifically:

- Inquire with the cooperative to determine if an independent review of its purchasing practices has been performed. Examine any noted findings and evaluate whether the cooperative is adequately following applicable laws and regulations. If a review has not been performed, conduct your own procurement review of the cooperative's purchasing practices.
- Examine the cooperative's negotiated vendor contracts and evaluate whether the contracts comply with laws and regulations. Be alert for instances when a cooperative uses requests for proposals to contract for goods and services where price is the determining factor for the award. An invitation for bids should be used when price

determines the winning bidder. Many cooperatives make contracts and other procurement documentation available on their Web site.

- Ensure that the goods and services you are purchasing are on the vendor's contract and examine the contract for potential discounts. Contact the vendor directly and inquire about timely payment and bulk purchasing discounts, and ensure these discounts are included in your billing.
- Examine the excluded parties' lists maintained by the Arizona State Procurement Office and the U.S. General Services Administration, which contain the names of individuals and firms prohibited from conducting business with the state and federal governments. For more information, visit http://spo.az.gov/Admin_Policy/SPM/Suspended_and_Debarred/default.asp and www.epls.gov.
- Retain documentation of the procedures performed in your procurement files for audit purposes.

Public Report

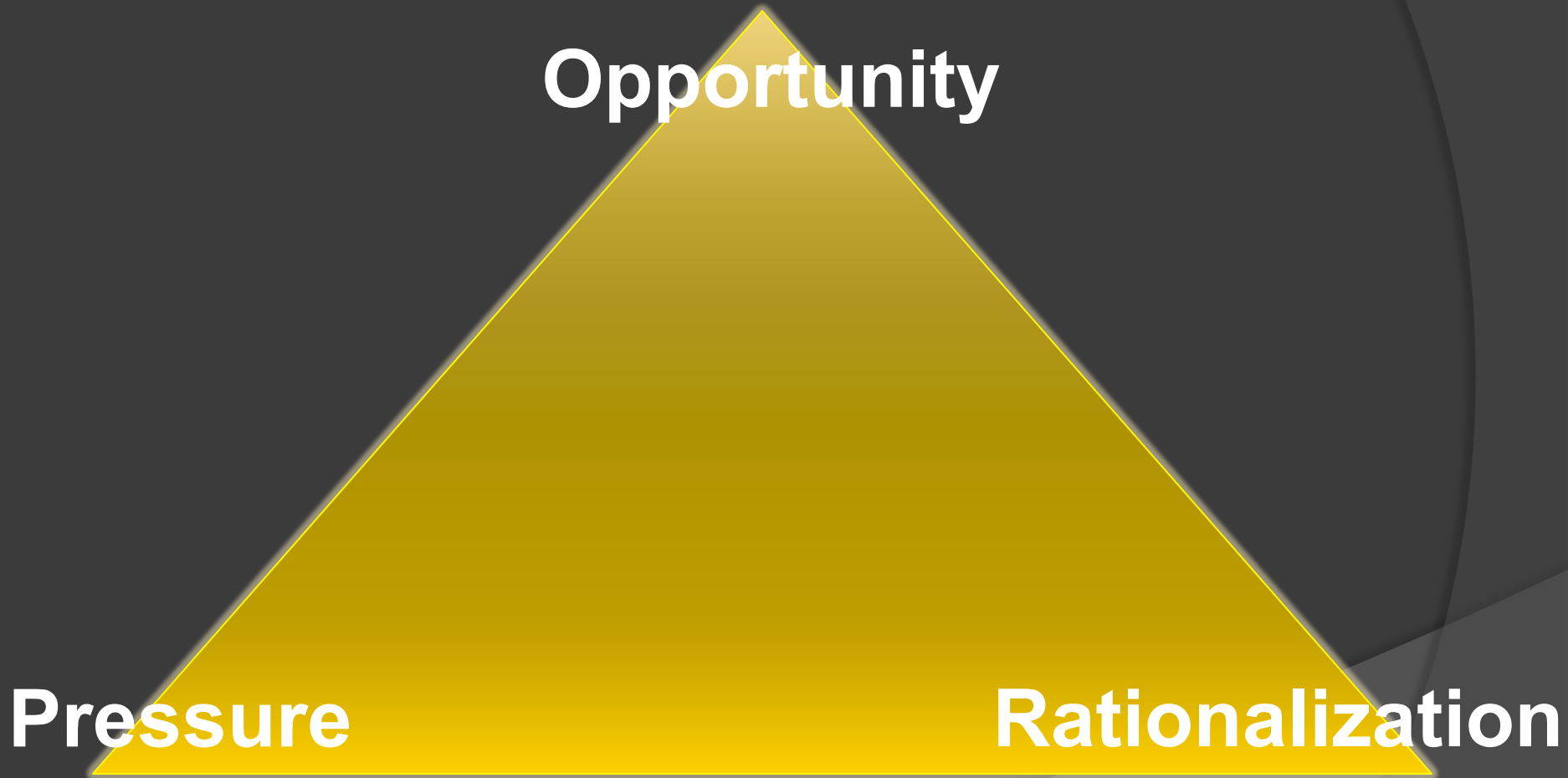


- Case Facts
- Findings
- Recommendations for improvement
- Conclusion/Results

What Causes Employees to Commit Fraud?



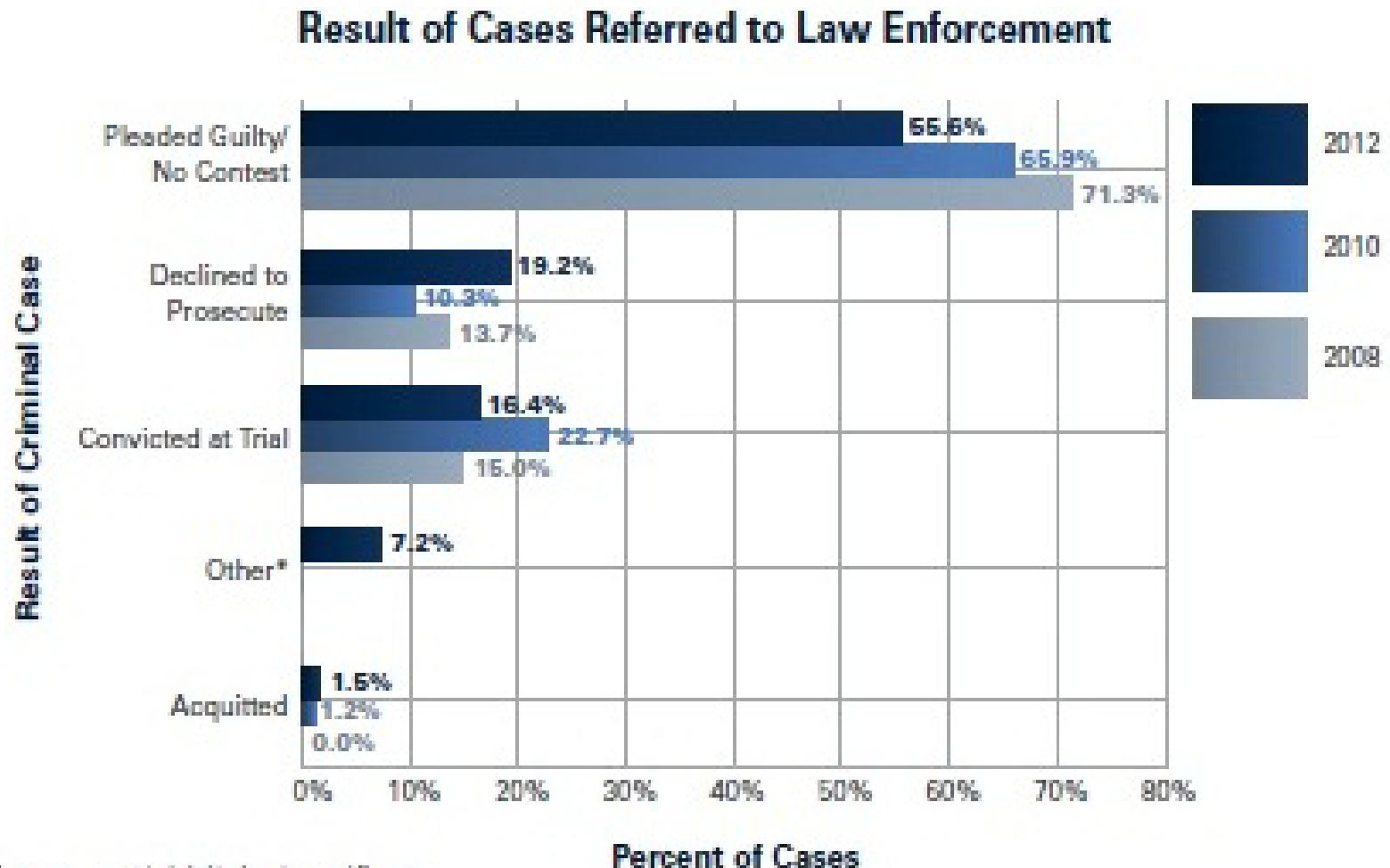
The Fraud Triangle



Fraud Prevention Measures

- **Reduce pressures on employees and influence employee rationalization:**
 - Develop an ethics policy and a strong fraud prevention policy
 - Set the right ethical tone: management climate
 - Listen to employees
 - Offer employee support programs
 - Pursue criminal action

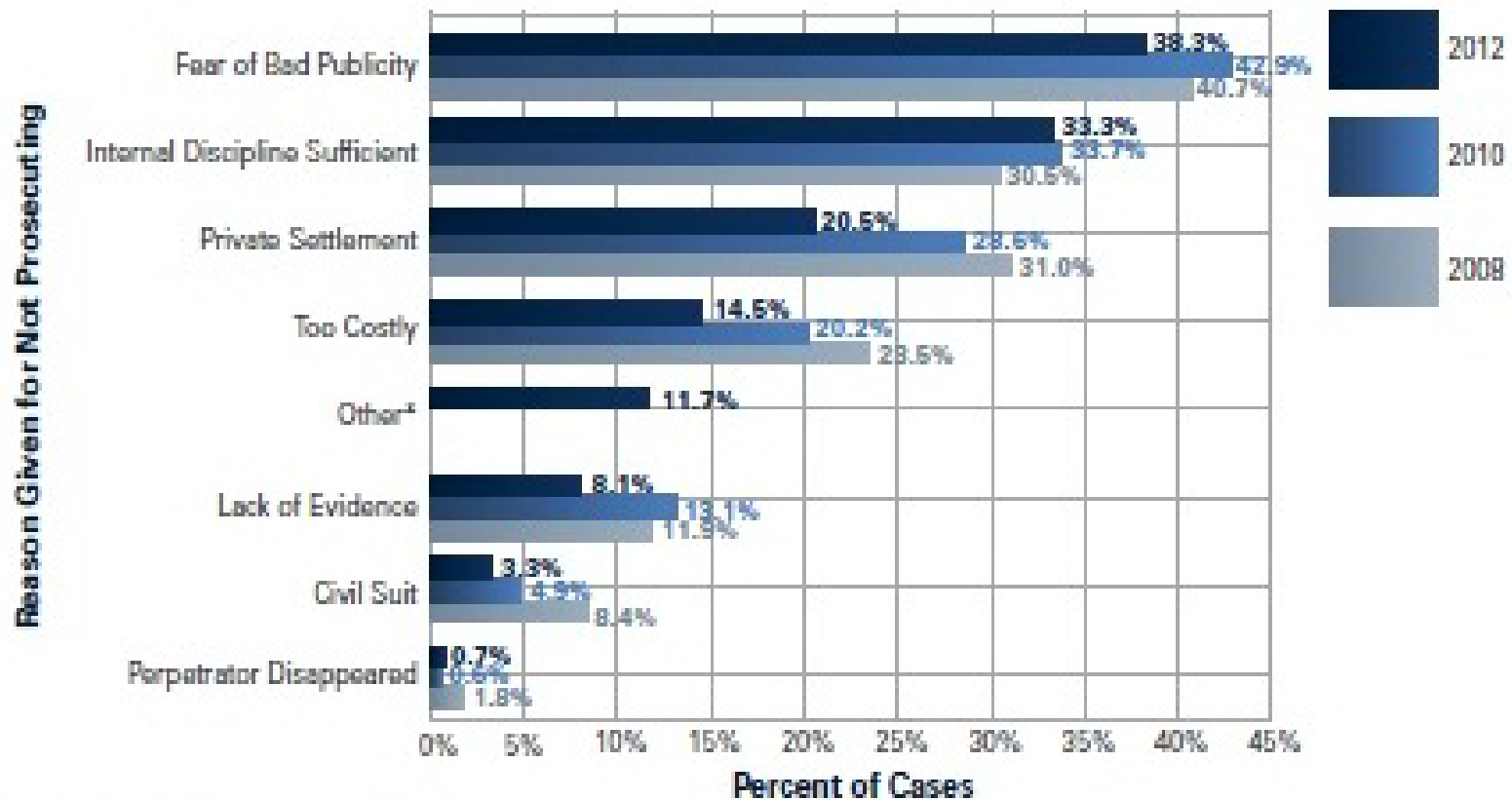
Pursue Criminal Action



*"Other" category was not included in the prior years' Reports.

Pursue Criminal Action

Reason(s) Case Not Referred to Law Enforcement



^a“Other” category was not included in the prior years’ Reports.

Fraud Prevention Measures

◎ **Reduce opportunities:**

- Internal Controls!
- Internal Controls!!
- Internal Controls!!!
- Surprise Audits and analytical reviews
- Mandatory vacations and job rotations

Resources



- Arizona Auditor General
azauditor.gov or (602)553-0333
- Lindsey Perry, SIU Manager
lperry@azauditor.gov
- Association of Certified Fraud Examiners
acfe.com