Fraud Risk Assessment

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Presentation Agenda

• Fraud basics
  • Key global statistics on fraud and how they relate back to their Credit Union
  • Identify the key fraud risks and key fraud prevention/detection controls

• Fraud risk assessment basics
  • What is a fraud risk assessment
  • Why perform a fraud risk assessment

• Conducting fraud risk assessment
• Common pitfalls in conducting a fraud risk assessment
• Recommendations in performing a fraud risk assessment
**Fraud** is a broad term that refers to a variety of offenses involving dishonesty or “fraudulent acts.” In essence, **fraud** is the intentional deception of a person or entity by another made for monetary or personal gain. **Fraud** offenses always include some sort of false statement, misrepresentation, or deceitful conduct.
Why the focus on fraud?

“At any given moment, there is a certain percentage of the population that’s up to no good.”

J. Edgar Hoover
Fraud as defined for this presentation

*Occupational fraud* schemes are when an employee abuses the trust placed in him or her by an employer for personal gain. The formal definition of occupational fraud is:

The use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.
The ACFE is the world’s largest anti-fraud organization.

Together with more than 75,000 members, the mission is to reduce the incidence of fraud and white-collar crime.

Premier provider of anti-fraud training and education.
Why is Fraud Committed?

The Fraud Triangle

Rationalization
Justification of dishonest actions.

FRAUD

Opportunity
Ability to carry out misappropriation of cash or organizational assets.

Pressure
Motivation or incentive to commit fraud.
Why is Fraud Committed?

Pressure

- A gambling or drug habit
- Personal debt or poor credit
- A significant financial loss
- Peer or family pressure to succeed
Why is Fraud Committed?

Opportunity

- Lack of supervision
- Poor internal controls
- Poor record keeping
- Extreme trust in a single individual
- Lack of disciplinary action for previous frauds
Why is Fraud Committed?

Rationalization

- *I was only “borrowing” the money and planned to repay it.*
- *The company won’t even realize this amount is gone; it’s not that much.*
- *I know more than my boss yet he makes twice as much as I do.*
- *I’ve been working with the company for 15 years. They owe it to me.*
- *I’ll stop once I pay off my debts.*
- *I deserved this after the way the company has treated me.*
Why is Fraud Committed?

**Capability**

- Technical skills to take advantage of opportunity
- Intelligence to exploit control weaknesses
- Ability to deal with the stress
- Organizational positioning
- Deception skills to lie to the board, auditors, and others and maintain that lie over time
Types of Fraud

**Asset Misappropriation**: schemes in which the employee steals or misuses an organization’s assets

- Tampering with company checks
- Accessing member accounts
- Fraudulent loans
- Overstating reimbursable expenses
Types of Fraud

**Corruption**: schemes in which a fraudster wrongfully uses his influence in a business transaction for the purpose of obtaining a benefit for himself or another person

- Conflicts of interest
- Illegal gratuities
- Bribery
Types of Fraud

**Fraudulent Statements**: fraud schemes involving the intentional misreporting of an organization’s financial information with the intent to mislead others

- Creating fictitious revenues
- Concealing liabilities or revenues
Types of Fraud

Source: ACFE 2016 Report to Nations

2016 Study Top Fraud Schemes at Financial Service Organizations

- Corruption: 37.5%
- Cash on Hand: 17.9%
- Cash Larceny: 11.1%
- Non-cash: 10.6%
- Financial statement: 12.0%
- Other: 28.2%
The seven areas of concern involving internal operations, listed in order of exposure, include:

1. Cash
2. Investments
3. Loans and Credit Cards
4. Shares and Draft Accounts
5. Dormant Accounts
6. General Ledger Accounts
7. Repossessed Collateral
Former CU Exec convicted of
Branch clerk stole $700,000

IF I STEAL $50, AND GET CAUGHT, I CAN'T AFFORD A LAWYER AND I GO TO PRISON FOR THREE MONTHS.

BUT IF I STEAL $500, I CAN AFFORD A BRIEF, AND MAYBE HE'LL GET ME A LIGHTER SENTENCE.

NOW IF I STEAL $50,000, I CAN BUY A TOP DRAWER BARRISTER LIKE YOURSELF, AND HE'LL GET ME OFF.

BUT IF I STEAL $5,000,000, IT'S NOT EVEN CALLED STEALING! IT'S "EMBEZZLEMENT."
Real World Credit Union Fraud Case #1

• What happened?
  • Credit Union VP of IT embezzled over $2 million over 10 years by purchasing unneeded/unauthorized equipment and reselling for personal gain. The individual ordered the equipment, wired funds to pay, and received the equipment personally.

• What went wrong?
  • IT fixed asset inventory not well managed?
  • Segregation of duties on procurement and purchasing controls?
  • Ability to circumvent wire controls?

• How could it have been prevented?
  • Better wire transfer controls
  • Controls and oversight of purchasing AND receiving
  • Regular inventory of fixed assets
Real World Credit Union Fraud Case #2

• What happened?
  • Branch manager embezzled $330,000 over 4 years

• How was it caught?
  • Discovered red flags internally and hired an accounting firm to perform forensic auditing

• What went wrong?
  • Lack of internal controls
  • Collusion with son

• How could it have been prevented?
  • Surprise cash counts
  • Review of “no mail” accounts
The Cost of Fraud

Source: ACFE 2016 Report to Nations

Of the three major categories of occupational fraud, financial statement fraud caused by far the greatest median loss per scheme.

- Asset misappropriation: $125,000
- Corruption: $200,000
- Financial statement fraud: $975,000
## The Cost of Fraud

*Source: ACFE 2016 Report to Nations*

**Figure 44: Industry of Victim Organizations (Sorted by Median Loss)**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Cases</th>
<th>Percent of Cases</th>
<th>Median Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>20</td>
<td>0.9%</td>
<td>$500,000</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>36</td>
<td>1.6%</td>
<td>$450,000</td>
</tr>
<tr>
<td>Services (Professional)</td>
<td>60</td>
<td>2.7%</td>
<td>$310,000</td>
</tr>
<tr>
<td>Agriculture, Forestry, Fishing, and Hunting</td>
<td>44</td>
<td>2.0%</td>
<td>$300,000</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>74</td>
<td>3.4%</td>
<td>$275,000</td>
</tr>
<tr>
<td>Construction</td>
<td>86</td>
<td>3.9%</td>
<td>$259,000</td>
</tr>
<tr>
<td>Technology</td>
<td>71</td>
<td>3.4%</td>
<td>$235,000</td>
</tr>
<tr>
<td>Communications and Publishing</td>
<td>16</td>
<td>0.7%</td>
<td>$225,000</td>
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<tr>
<td>Real Estate</td>
<td>41</td>
<td>1.9%</td>
<td>$200,000</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>192</td>
<td>8.0%</td>
<td>$194,000</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>62</td>
<td>2.8%</td>
<td>$194,000</td>
</tr>
<tr>
<td>Banking and Financial Services</td>
<td>368</td>
<td>16.0%</td>
<td>$192,000</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>68</td>
<td>3.1%</td>
<td>$143,000</td>
</tr>
<tr>
<td>Government and Public Administration</td>
<td>229</td>
<td>10.5%</td>
<td>$133,000</td>
</tr>
<tr>
<td>Health Care</td>
<td>144</td>
<td>6.6%</td>
<td>$120,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>85</td>
<td>3.9%</td>
<td>$107,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>40</td>
<td>1.8%</td>
<td>$102,000</td>
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<tr>
<td>Other</td>
<td>153</td>
<td>7.0%</td>
<td>$100,000</td>
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<tr>
<td>Services (Other)</td>
<td>70</td>
<td>3.2%</td>
<td>$100,000</td>
</tr>
<tr>
<td>Retail</td>
<td>104</td>
<td>4.8%</td>
<td>$85,000</td>
</tr>
<tr>
<td>Religious, Charitable, or Social Services</td>
<td>52</td>
<td>2.4%</td>
<td>$82,000</td>
</tr>
<tr>
<td>Arts, Entertainment, and Recreation</td>
<td>37</td>
<td>1.7%</td>
<td>$75,000</td>
</tr>
<tr>
<td>Education</td>
<td>132</td>
<td>6.0%</td>
<td>$62,000</td>
</tr>
</tbody>
</table>
The Cost of Fraud

Source: ACFE 2016 Report to Nations

Figure 2: Distribution of Dollar Losses
The Cost of Fraud

Source: ACFE 2016 Report to Nations

Figure 18: Frequency and Median Loss Based on Duration of Fraud
The Cost of Fraud
Source: ACFE 2016 Report to Nations

Figure 87: Number of Perpetrators—Frequency and Median Loss

- **One** perpetrator: 52.9%, Median Loss: $85,000
- **Two** perpetrators: 17.4%, Median Loss: $150,000
- **Three** perpetrators: 10.6%, Median Loss: $220,000
- **Four** perpetrators: 5.4%, Median Loss: $294,000
- **Five or More** perpetrators: 13.7%, Median Loss: $633,000

Legend:
- Median Loss
- Percent of Cases
The Cost of Fraud

Source: ACFE 2016 Report to Nations

- Organizations can be levied fines for having inadequate controls
- Reputation risk
- Losses paid by NCUSIF are shared by all Credit Unions

<table>
<thead>
<tr>
<th>Year</th>
<th>CU failures/CU failures were fraud was key contributor</th>
<th>%age of failures where fraud was key contributor</th>
<th>Share Insurance Fund losses due to failed CU where fraud was key</th>
<th>%age of Share Insurance Fund losses from fraud-related failures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>16/11</td>
<td>69</td>
<td>$12,747,130</td>
<td>83</td>
</tr>
<tr>
<td>2014</td>
<td>15/7</td>
<td>47</td>
<td>$33,067,932</td>
<td>89</td>
</tr>
<tr>
<td>2013</td>
<td>17/9</td>
<td>53</td>
<td>$56,420,715</td>
<td>90</td>
</tr>
<tr>
<td>2012</td>
<td>22/12</td>
<td>55</td>
<td>$42,426,888</td>
<td>27</td>
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<td>2011</td>
<td>16/7</td>
<td>44</td>
<td>$9,318,871</td>
<td>20</td>
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<td>2010</td>
<td>28/6</td>
<td>21</td>
<td>$182,116,062</td>
<td>80</td>
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<tr>
<td>2009</td>
<td>27/6</td>
<td>22</td>
<td>$23,253,606</td>
<td>13</td>
</tr>
<tr>
<td>2008</td>
<td>19/10</td>
<td>53</td>
<td>$30,997,537</td>
<td>13</td>
</tr>
<tr>
<td>2007</td>
<td>12/6</td>
<td>50</td>
<td>$46,716,033</td>
<td>95</td>
</tr>
<tr>
<td>2006</td>
<td>16/6</td>
<td>38</td>
<td>$5,529,200</td>
<td>81</td>
</tr>
</tbody>
</table>
Real World Credit Union Fraud Case #3

• What happened?
  • Management fraudulently overstated assets and understated shares to hide money that had been embezzled over 10 years ($15 million)

• How was it caught?
  • NCUA examination

• What went wrong?
  • Inadequate board oversight
  • Manipulation of documents (including third-party confirmations)
  • Collusion

• How could it have been prevented?
  • Identify and respond to red flags
  • Board oversight
  • Procurement controls
Real World Credit Union Fraud Case #4

• What happened?
  • Management fraudulently overstated assets, mainly investments, to cover up embezzled funds ($8 million)

• How was it caught?
  • External audit, discrepancy between third-party investment confirmation

• What went wrong?
  • Weak board and supervisory committee oversight
  • Manipulation and destruction of documents; collusion
  • Lack of cash/investment controls

• How could it have been prevented?
  • Identify and respond to red flags
  • Board oversight
  • Cash, investment, procurement, and journal entry controls
Who Commits Fraud?

Source: ACFE 2016 Report to Nations

The vast majority of occupational fraudsters are first-time offenders.

- 5% were convicted of a prior fraud-related offense.
- 8% were fired for fraud-related conduct by a previous employer.
Who Commits Fraud?

• Non-Fraud-Related Misconduct
  • Nearly 40% of fraudsters had engaged in some form of non-fraud workplace violations (bullying or intimidation most common)

• Behavioral Red Flags
  • Living beyond means
  • Complaining about money
  • Stops complaining about money
  • Keeps too much control considering position
  • Unreconciled accounts
  • Frequent delays when requesting information
Who Commits Fraud?

Source: ACFE 2016 Report to Nations

Figure 65: Position of Perpetrator—Frequency and Median Loss
Who Commits Fraud?

Source: ACFE 2016 Report to Nations
What is a Fraud Risk Assessment?

A fraud risk assessment should be performed periodically to identify potential schemes and events that need to be mitigated.

• Structured process to identify where and how fraud may occur
• Identification of personnel who may be in a position to commit fraud
• Measurement of preventative and detective controls to ensure they are designed and operating effectively
• Critical component of enterprise risk assessment
• Key element to Anti-fraud framework
Why Conduct a Fraud Risk Assessment?

• A fraud risk assessment expands beyond a traditional risk assessment
  • It is important to design fraud detection procedures that a perpetrator may not expect, requires a skeptical mindset and involves asking questions such as:
    • How might a fraud perpetrator exploit weaknesses in the system of controls?
    • How could a perpetrator override or circumvent controls?
    • What could a perpetrator do to conceal the fraud?

• Assessment teams identify the potential schemes and scenarios impacting the industries and geographic markets in which the organization conducts business
Why Conduct a Fraud Risk Assessment?

- Improve communication and awareness of fraud
- Identify where the institution is most vulnerable to fraud and what activities put it at the greatest risk
- Develop plans to mitigate fraud risk
- Develop techniques to monitor and investigate high-risk areas
- Assess internal controls
Why Conduct a Fraud Risk Assessment

• Fraud exists in **EVERY** organization.
• Fraudsters are becoming more and more sophisticated.
• And estimated 95% of fraud goes unnoticed unless you are actively looking for it.
• Should be a component of larger ERM.
• Comply with regulations and professional standards
• COSO 2013 – Principal 8
Fraud Risk Assessment

Management must own the Fraud Risk Assessment (FRA) and have significant input into the FRA. Educate the Board and External Auditors on the FRA – get their support/buy-in.
Fraud Risk Assessment

Generally includes 3 key elements

1. Identification of inherent fraud risk
2. Assessment likelihood and significance of inherent fraud risk
3. Response to reasonably likely and significant inherent and residual fraud risks
Fraud Risk Assessment

Guidance

• *Managing the Business Risk of Fraud: A Practical Guide*
  • Joint project of Institute of Internal Auditors (IIA), American Institute of Certified Public Accountants & Association of Certified Fraud Examiners

• *Internal Auditing and Fraud*
  • IIA
Fraud Risk Program

- Formal documentation
  - Policy
  - Code of conduct
  - Conflict of interest
- Assessment – performed on a systematic and recurring basis
- Corrective action
- Quality assurance – periodic review of effectiveness of program
- Monitoring
Fraud Risk Identification

- Identify a risk assessment team
  - Accounting/finance personnel, who are familiar with the financial reporting process and internal controls
  - Nonfinancial business unit and operations personnel, branch managers, loan officers, operations, etc.
  - Legal and compliance personnel, if any
  - Internal audit personnel

- Fraud risk identification
  - Brainstorming meeting
  - Schedule and conduct interviews
  - Assessment of incentives, pressures, and opportunities

- Risk of management’s override of controls
Fraud Risk Identification

• Population of fraud risks
  1. Fraudulent financial reporting
     • Inappropriately reported revenues
     • Inappropriately reported expenditures
     • Inappropriately reflected balance sheet amounts, including reserves
     • Inappropriately improved and/or masked disclosures
     • Concealing misappropriation of assets
     • Concealing unauthorized receipts and expenditures.
Fraud Risk Identification

• Population of fraud risks
  2. Misappropriation of assets
    • Employees
    • Vendors
    • Former employees and others outside the organization
  3. Corruption
    • Bribery and gratuities
    • Aiding and abetting fraud by other parties (e.g., vendors)
    • Conflicts of interest
    • Embezzlement
Evaluation of Fraud Risks Identified

- Consider whether each fraud risk factor indicates the existence of an incentive/pressure, opportunity or attitudes/rationalizations
- Consider whether each fraud risks are pervasive or specific
- For each identified fraud risk factor, identify the account balances and potential errors that may be affected and assess the fraud risks
- Brainstorm specific fraud schemes that could result from the specific risks identified
- For each fraud scheme, identify internal and external parties who could be involved with reference to incentives/pressure, opportunities, attitudes & rationalizations
Prioritize Fraud Risk

• Evaluate possible fraud schemes by:
  • Type
  • Likelihood
  • Significance
  • Pervasiveness

• Consider Inherent Risk Rating (IRR)
Evaluate Existence/Effectiveness of Controls

• Link fraud schemes to mitigating controls
  • Preventative
  • Detective

• Evaluate the effectiveness of controls

• Evaluate the residual fraud risk
Evaluating Mitigating Controls

Antifraud control activities can be preventative or detective in nature

- **Preventative** controls are designed to mitigate specific fraud risks and can deter frauds from occurring
- **Detective** control activities are designed to identify fraud if it occurs. Detective controls can also be used as a monitoring activity to assess the effectiveness of antifraud controls and may provide additional evidence of the effectiveness of antifraud programs and controls
Evaluating Mitigating Controls

- Special consideration should be given to the risk of override of controls by management.
- Some programs and controls that deal with management override include:
  - active oversight from the audit committee
  - whistle-blower programs and a system to receive and investigate anonymous complaints; and
  - reviewing journal entries and other adjustments for evidence of possible material misstatement due to fraud.
Evaluating Mitigating Controls

- Design and implement controls to close identified gaps
- The FRA should be iterative and should be reassessed at least annually as well as when there is a significant change in the control environment
- Evaluating the effectiveness of the controls
- Only map those controls identified as significant
- Identify entity level controls that will assist in mitigating remaining residual risk
- Leverage off existing efforts and controls
Risk Treatment

- Prepare a Fraud Risk Action Plan to treat and mitigate fraud risk schemes requiring attention
- Implement Fraud Risk Action Plan
- Controls should be implemented or enhanced for identified fraud schemes where controls are not already present, inadequately designed or poorly implemented
- Ensure overall responsibility is assigned to a senior manager to monitor control implementation as detailed in the Fraud Risk Action Plan
- The Supervisory (Audit) Committee should oversee the entire process
Documenting Fraud Risk Assessment

• Spreadsheet listing identified risks, controls and evaluations
• Summary/Minutes of fraud brainstorm sessions
• Summary of key risks (Heat map)
• Process narrative
• Minutes of supervisory (audit) committee meetings during which management’s fraud risk assessment was presented / reviewed / discussed / approved
• E-mail and other correspondence related to the process
Benefits of a Fraud Risk Assessment

- Prevent, deter and detect fraud
- Prevent financial losses
- Prevent potential damage to reputation
- Provide tangible evidence for a culture of integrity
- Best Practice
Real World Credit Union Fraud Case #5

• What happened?
  • Loan officer embezzled $118,000 over 7 years

• How was it caught?
  • Discovered internally

• What went wrong?
  • Lack of internal controls

• How could it have been prevented?
  • Review of file maintenance reports
  • Loan origination controls
  • Segregation of duties
Fraud Detection

Source: ACFE 2016 Report to Nations

Six signs of possible internal fraud

1. **Accounting anomalies** – These involve countless red flags such as cash shortages, excessive loan delinquencies and accounts being out of balance, etc.

2. **Internal control weaknesses** – These equate to opportunities for insiders to commit fraud. If you identify a weakness, chances are that someone will exploit it if he or she hasn’t already done so.

3. **Analytical symptoms** – When a business function occurs at the wrong time or is conducted by the wrong person or a similar operational anomaly occurs, chances are it is a sign of fraud.

4. **Lifestyle symptoms** – Employees living beyond their means is the most common. Smart internal fraudsters would steal and save but most steal and spend. When you notice signs of extravagant lifestyle, you may likely be looking at a red flag of fraud.

5. **Behavioral symptoms** – People who stop looking you in the eye, come in earlier and/or stay later than usual without a valid reason may need to be monitored as potential fraudsters.

6. **Tips and complaints** – When employees report actual or suspected incidents of fraud among their co-workers or bosses, you’ve got good reason to undertake an investigation.
Fraud Detection

Source: ACFE 2016 Report to Nations

**Figure 21: Initial Detection of Occupational Frauds**

- **Tip**: 43.3% (2016), 42.2% (2014), 39.1% (2012)
- **Internal Audit**: 14.4% (2016), 14.1% (2014), 16.5% (2012)
- **Management Review**: 14.6% (2016), 16.0% (2014), 13.4% (2012)
- **By Accident**: 7.0% (2016), 6.8% (2014), 5.6% (2012)
- **Account Reconciliation**: 4.0% (2016), 5.5% (2014), 6.6% (2012)
- **Other**: 1.1% (2016), 6.5% (2014), 0.5% (2012)
- **Document Examination**: 4.1% (2016), 4.2% (2014), 3.8% (2012)
- **External Audit**: 3.3% (2016), 3.8% (2014), 4.0% (2012)
- **Notified by Law Enforcement**: 3.0% (2016), 2.3% (2014), 2.4% (2012)
- **Surveillance/Monitoring**: 1.3% (2016), 1.8% (2014), 1.9% (2012)
- **IT Controls**: 1.1% (2016), 3.1% (2014), 1.3% (2012)
- **Confession**: 0.5% (2016), 0.8% (2014), 1.3% (2012)
Fraud Detection

Source: ACFE 2016 Report to Nations

**MORE THAN 40% OF ALL TIPS CAME FROM NON-EMPLOYEES, SUCH AS CUSTOMERS AND VENDORS.**

**PERCENT OF CASES DETECTED BY TIP**

- **WITH HOTLINES**: 47%
- **WITHOUT HOTLINES**: 28%

**MORE THAN HALF OF WHISTLEBLOWERS USED INTERNET-BASED REPORTING**

**WHISTLEBLOWERS REPORT FRAUD THROUGH A NUMBER OF DIFFERENT CHANNELS, SUCH AS TO A DIRECT SUPERVISOR, COMPANY EXECUTIVE, OR A FRAUD INVESTIGATION TEAM.**
## Fraud Detection

*Source: ACFE 2016 Report to Nations*

**Figure 59: Median Loss Based on Presence of Anti-Fraud Controls**

<table>
<thead>
<tr>
<th>Control</th>
<th>Percent of Cases</th>
<th>Control in Place</th>
<th>Control Not in Place</th>
<th>Percent Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactive Data Monitoring/Analysis</td>
<td>36.7%</td>
<td>$92,000</td>
<td>$200,000</td>
<td>54.0%</td>
</tr>
<tr>
<td>Management Review</td>
<td>64.7%</td>
<td>$100,000</td>
<td>$200,000</td>
<td>50.0%</td>
</tr>
<tr>
<td>Hotline</td>
<td>60.1%</td>
<td>$100,000</td>
<td>$200,000</td>
<td>50.0%</td>
</tr>
<tr>
<td>Management Certification of Financial Statements</td>
<td>71.9%</td>
<td>$104,000</td>
<td>$205,000</td>
<td>49.3%</td>
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<tr>
<td>Surprise Audits</td>
<td>37.8%</td>
<td>$100,000</td>
<td>$195,000</td>
<td>48.7%</td>
</tr>
<tr>
<td>Dedicated Fraud Department, Function, or Team</td>
<td>41.2%</td>
<td>$100,000</td>
<td>$192,000</td>
<td>47.9%</td>
</tr>
<tr>
<td>Job Rotation/Mandatory Vacation</td>
<td>19.4%</td>
<td>$89,000</td>
<td>$170,000</td>
<td>47.6%</td>
</tr>
<tr>
<td>External Audit of Internal Controls over Financial Reporting</td>
<td>67.6%</td>
<td>$105,000</td>
<td>$200,000</td>
<td>47.5%</td>
</tr>
<tr>
<td>Fraud Training for Managers/Executives</td>
<td>51.3%</td>
<td>$100,000</td>
<td>$190,000</td>
<td>47.4%</td>
</tr>
<tr>
<td>Fraud Training for Employees</td>
<td>51.6%</td>
<td>$100,000</td>
<td>$188,000</td>
<td>46.8%</td>
</tr>
<tr>
<td>Formal Fraud Risk Assessments</td>
<td>39.3%</td>
<td>$100,000</td>
<td>$187,000</td>
<td>46.5%</td>
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<td>Employee Support Programs</td>
<td>56.1%</td>
<td>$100,000</td>
<td>$183,000</td>
<td>45.4%</td>
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<tr>
<td>Anti-Fraud Policy</td>
<td>49.6%</td>
<td>$100,000</td>
<td>$175,000</td>
<td>42.9%</td>
</tr>
<tr>
<td>Internal Audit Department</td>
<td>73.7%</td>
<td>$123,000</td>
<td>$215,000</td>
<td>42.8%</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>81.1%</td>
<td>$120,000</td>
<td>$200,000</td>
<td>40.0%</td>
</tr>
<tr>
<td>Rewards for Whistleblowers</td>
<td>12.1%</td>
<td>$100,000</td>
<td>$163,000</td>
<td>38.7%</td>
</tr>
<tr>
<td>Independent Audit Committee</td>
<td>62.5%</td>
<td>$114,000</td>
<td>$180,000</td>
<td>36.7%</td>
</tr>
<tr>
<td>External Audit of Financial Statements</td>
<td>81.7%</td>
<td>$150,000</td>
<td>$175,000</td>
<td>14.3%</td>
</tr>
</tbody>
</table>
What should we do if we suspect fraud?

22.10 You should discuss the situation with management, particularly if you are not certain about what you have found. If you suspect that the manager is involved in the fraud, you should report your results to the Board of Directors immediately.

Ensure that the Board of Directors reports the fraud to the bonding company, and files a Suspicious Activity Report in all cases of fraud. If:

- The fraud is material (it involves upper management, or entails a large amount of funds), OR

- You feel that action taken by the Board of Directors is insufficient to fully address the situation,

then, contact your NCUA Regional Office, your federal examiner or your SSA immediately.
The reputation risk aspect of internal fraud

Avon Lake man gets 25 years for Croatian credit union collapse ...
www.cleveland.com/metro/.../avon_lake_man_gets_25_years_fo.htm... The Plain Dealer
Dec 22, 2015 - ... his role in the 2010 collapse of St. Paul Croatian Federal Credit Union. ... year found Seljekaj guilty of conspiracy, financial institution fraud, ...

Former St. Paul Croatian credit union COO testifies that he was most ...
www.cleveland.com/court/.../former_st_paul_croatian_credit.html The Plain Dealer
Feb 18, 2015 - ... chief operating officer of the St. Paul Croatian Federal Credit Union, ... he detailed parts of his scheme to make sure he concealed his fraud.

St. Paul Croatian Federal Credit Union fraud: A. Eddy Zai gets 87 ...
Feb 5, 2013 - Local businessman A. Eddy Zai was sentenced Tuesday to 87 months in prison and ordered to forfeit more than $23 million after he previously ...

FBI — Two Local Businessmen and Accountant Charged in Fraud ...
https://www.fbi.gov/.../two-local-businessmen-and-acc... Federal Bureau of Investigation
Feb 6, 2012 - A federal grand jury in Cleveland returned a 37-count indictment against ... in a fraud at the St. Paul Croatian Federal Credit Union, formerly in ...
Common Pitfalls

- “No Fraud here” mentality
- “He / She would never”
- Assessment is not risk-based
- Too broad, not focused
- Approach isn’t aligned with corporate culture
- Organization does not have appropriate skill sets to perform assessment properly
- Not systematic and reoccurring
Common Pitfalls

- Fraud risk factors are not considered
- Existing controls are not considered
- Effectiveness of controls is not evaluated
- Management override of controls is not considered
- Collusion is not considered
- All frauds are considered equal
- Where deficiencies are identified, no remediation efforts are made
Questions

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Thank you!