



Washington State Auditor's Office

Troy Kelley

Independence • Respect • Integrity

Preventing and Detecting Fraud in your Organization

Reporting losses (RCW 43.09.185)

- All suspected or known losses, including:
- Money and other assets
- Other illegal acts

Report fraud online at www.sao.wa.gov

Responsibility of management

- Protect their employees by establishing policies and procedures designed to safeguard funds from loss.
- Ability to fix responsibility for funds to a particular employee at a point in time, all the time.
- Ensure proper segregation of duties.
- Monitor financial activity and understand it so you can identify irregularities.
- Trust your employees and co-workers to a point.

Cash receipting schemes

- **Skimming:** Generally involves off-book sales or services that are never recorded in the books - employee misappropriates the funds.
- **Larceny:** Involves misappropriating funds that are already recorded in the accounting system
 - Daily deposits
 - Less cash schemes
 - Voids and returns
 - "Missing" funds

Red flags of cash receipting fraud

- Lack of segregation of duties or other compensating controls
- Deposits not made daily and intact
- Check/cash composition of the daily deposit does not agree to the mode of payment on the cash receipts
- Cash deposits differ from normal patterns
- Inventory discrepancies
- Unusual over/short activity
- Missing deposit slips
- Unusual journal entries
- High void activity

Our mission:

The State Auditor's Office holds state and local governments accountable for the use of public resources.

Reporting fraud online

The Washington State Auditor's Office has a tool for reporting suspected misappropriation online at: www.sao.wa.gov



Cash receipting prevention and detection

- Have adequate segregation of duties or other compensating controls.
- Compare bank deposits to cash receipt records and verify the mode of payment agrees.
- Review voided transactions to ensure they are supported.
- Verify inventory records agree to usage.
- Review bank reconciliations.

Accounts payable disbursements

Causing employer to issue a payment by submitting invoices for:

- Fictitious goods or services
- Inflated invoices
- Invoices for personal purchases

Red flags of accounts payable fraud

- Higher-than-usual costs
- Excess goods and services
- Copies of documents rather than originals
- Missing documents
- Unusual vendors
- Unusual changes in the behavior or lifestyle of employees
- Unusual endorsements on the checks

Accounts payable prevention and detection

- Have adequate segregation of duties or other compensating controls.
- Review vendor listings for unusual vendors or excessive payments to vendors.
- Ensure voided transactions are truly voided.
- Review for transactions that are out of the ordinary.
- Only pay original invoices - make sure they make sense.
- Ensure payments made outside normal process are approved, supported and for public purpose.
- Ask questions and confirm with a third party if necessary.

Expense reimbursements

Any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expense such as:

- Charging for items used for personal reasons
- Seeking reimbursement for travel and expenses when they were paid on company credit card or advanced travel
- Billing for expenses that did not occur
- Falsifying receipts to make the purchases business related
- Inflating mileage

Red flags of expense reimbursement fraud

- Expenses exceed what was budgeted or prior year totals
- Expenses claimed on days the employee did not work
- Minimal or non-existent support behind the request
- Support is photocopies, not originals
- Expenses all end in round numbers
- Reports were approved by someone outside the department
- Unusual or excessive reimbursements to one employee

Employee reimbursement fraud prevention and detection

- Have adequate segregation of duties or other compensating controls
- Establish policies and procedures and ensure they are enforced
- Require detailed expense report with original receipts and documentation attached
- Supervisor with knowledge of employees activities should be approving the report
- Ask questions and get a supported answer

Credit and gasoline card disbursements

- Use of entity credit cards, gasoline cards or open purchase orders for personal purchases
- Specific risks for credit purchases:
 - Used at unauthorized vendors
 - Used for unauthorized purchases
 - The approved spending limit may be exceeded

Red flags for credit purchases

- Lack of policies and procedures for credit purchases
- Credit purchases are paid from the statements without detailed receipts for support
- Lack of monitoring of credit purchases
- The detailed credit receipt is not obtained, just the summary
- Credit bills go directly to purchaser versus a supervisor/mentor
- Credit purchases are higher than expected

Credit fraud prevention and detection

- Create and enforce adequate policies and procedures regarding credit purchases
- Review bills and supported documentation submitted to ensure the purchases are approved, supported and for a public purpose
- When irregularities are found, follow up to ensure the purchases were appropriate
- Ensure items that were purchased were received and are onsite

Payroll disbursements

- Payroll fraud involves making false claims for compensation
- This can be achieved through schemes such as:
 - Adding “ghost” employees to payroll
 - Adding hours to timesheets that were not worked
 - Taking leave without using annual or sick leave
 - Manipulating benefit information

Payroll fraud red flags

- Unusual fluctuations in payroll expenses, including benefit line items
- Poor internal controls
- Employees with P.O. Box addresses
- Missing paychecks
- Employees with the same direct deposit account
- When questions are asked, you do not receive an answer

Payroll fraud prevention and detection

- Use the straight-line approach for payroll processing
- Review payroll registers regularly - ask questions and get supported answers
- Review personnel files to verify it is a real person and they are an employee (ghost employees can be real people)
- Monitor to ensure overtime is supported and reasonable
- Review leave reports for reasonableness
- Keep unused check stock secured
- Review returned checks for dual signatures
- Create and review error reports
 - Same bank account number
 - Same address

Questions or comments

Sarah Walker
Fraud Manager

(509) 454-3621

[sarah.walker@sao.](mailto:sarah.walker@sao.wa.gov)

wa.gov

The Washington State Auditor's Office is an Equal Employment Opportunity employer. Persons with a disability who need this information in an alternate format, may call 360-725-5623 or the telecommunications device for the hearing impaired at 1-800-833-6388.