

Detecting and Preventing Fraud & Kickbacks

By:

Mindy Eisenberg-Stark CPA CFE
88 Bonnie Meadow Rd
Scarsdale NY 10583

Tel 914-725-8880

Fax 914-725-8881

Mindy.Stark@mescpa.com



Fraud

- Intentional deception resulting in injury to another. Fraud usually consists of a misrepresentation, concealment, or nondisclosure of a material fact, or at least misleading conduct, devices, or contrivance.
-



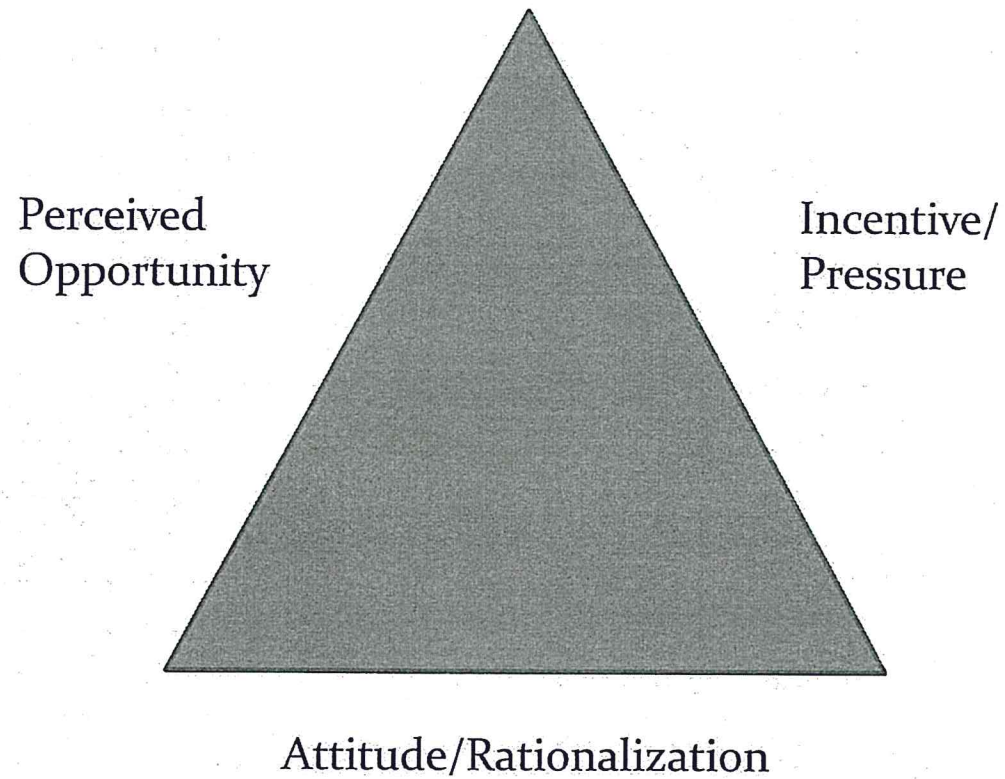
Fraud Statistics

- Fraud and abuse costs U.S. organizations more than \$660 billion annually⁽¹⁾.
- The average organization loses about 6 percent of its total annual revenue to fraud and abuse committed by its own employees⁽¹⁾.
- The typical organization loses 5 percent of its annual revenue to fraud, with a median loss of \$160,000⁽²⁾.
- Frauds committed by owners and executives were more than nine times as costly as employee fraud⁽²⁾.

1. Association of Certified Fraud Examiners' 2004 Report to the Nation.

2. Report to the Nations on Occupational Fraud and Abuse. Association of Certified Fraud Examiners-2010.

The Fraud Triangle





Perceived Opportunity

- The person committing the fraud sees the opportunity to “get away with it” and assess the act to have particularly minimal risk of getting caught.
-



Incentive/Pressure

- Individual has financial pressures which cannot be solved through legal means and seeks other sources to provide money to solve his/her monetary troubles.
 - Job is in jeopardy
 - Can't afford personal bills
-



Attitude/Rationalization

- The majority of people that commit fraud are people with no criminal past. They rationalize their actions in order for the fraud not to be viewed as criminal act to themselves.
-

Types of Fraud

Kickbacks
Embezzlement
Skimming
Larceny



Kickbacks

(Payments offered for usage or referral of business)

More prevalent now, as economy is bad and companies are vying for less business opportunities

- Signs to look for:
 - Bills for repeat purchases suddenly costing more than usual
 - Overbilling by vendors
 - Unexplainable increase in spending for certain items
 - Bid rigging



Embezzlement

- Signs to look for:
 - Transfer of money to unknown account
 - Checks to random vendors
 - Reimbursement for items not approved of by board
 - Bills turned in more than once
 - No detail on bill
 - Check tampering
 - Personal purchases with company funds
 - Miscellaneous income items aren't received
 - Ghost employees
-



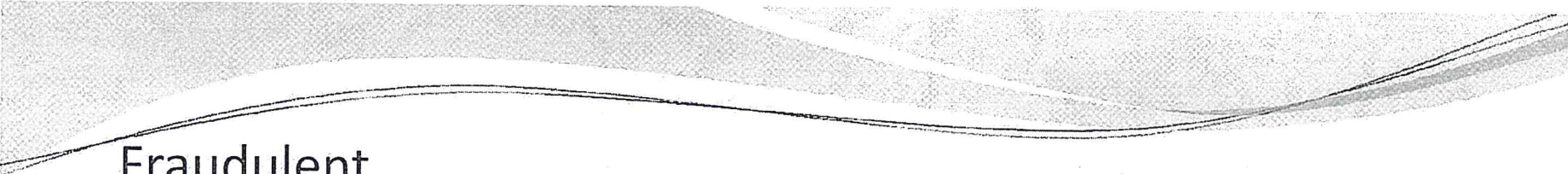
Skimming

- Cash is stolen from organization before it is recorded on the organizations books
-



Larceny

- Cash is stolen from an organization after it is recorded on the organizations books
-



Fraudulent Disbursement Methods

1. Billing schemes
2. Check tampering
3. Payroll schemes
4. Expense reimbursement scheme
5. Register disbursement(not usually relevant to coops or condos)

1. Putting through fraudulent invoices as payables
2. Company check is altered for another individuals gain
3. Employee benefits from inflating hours worked or putting through fictitious employees
4. Employee seeks reimbursement for expense that are either personal in nature, inflated, or fictitious
5. Register clerk runs fraudulent refund or pockets the money without ever recording the transaction

Fraud Prevention

Guidelines for preventing the occurrence of fraud



Preventative Measures

- **For Managing Agents**

- Ethics\Policy Guidelines (Handbook)
 - Set by example (managers)
 - Internal control system
 - (Smaller businesses are at higher risk as they tend to have less controls)
 - Separate accounts for each property (no co-mingling of funds)
 - Original bills turned in for reimbursement with explanation of what purchase was for
 - Checks should be made out and mailed directly to vendors (i.e. not given back to agent)
-

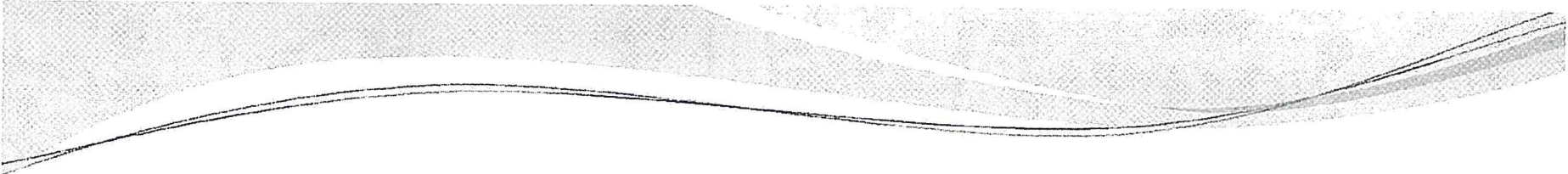


Preventative Measures

- **For The Board of Directors/Building**
 - Dual signature on checks (over specified amount)
 - Board review of financials and monthly bills
 - Board of directors sets the tone
 - Sealed bids for major contracts
 - Investigate relationships between potential vendors and Board Members or Managing Agent
 - Use of outside professionals
 - Certified Audits
-

Fraud Suspected

What to do if you suspect fraud is being committed



Fraud Suspected

- Contact:
 - Accountant
 - Attorney
 - Insurance company
 - Fraud audit
 - Criminal vs. Civil action
-

Management Report

Integral Components of an Informative Report

Management Report is a key component of an informative report.

Management Report is a key component of an informative report.

Management Report is a key component of an informative report.

Management Report is a key component of an informative report.

Management Report is a key component of an informative report.

Management Report is a key component of an informative report.

Management Report is a key component of an informative report.

Management Report is a key component of an informative report.

Management Report is a key component of an informative report.

Management Report is a key component of an informative report.



Key Elements of a Monthly Management Report

- Bank Reconciliation with copy of bank statement
 - Copies of checks that cleared bank that month
 - Copies of bills paid
 - Notes for bills that don't have detail explaining what purchase was for
 - Comparative Financials of budget and year to year
 - Detailed cash disbursements and cash receipts
 - Detailed accounts receivable and Accounts Payable
-

Insurance

What is the difference between insurance and reinsurance?



Insurance

- Crime Insurance policy- review make sure includes coverage for all events and possible occurrences
 - Co-ops, Condos and Managing Agents should all have their own policies (be certain your agent has their own policy as many don't have enough financial backing to cover restitution for crimes committed by their employees)
 - Report to insurance agency in timely manner (Some insurers have requirement that must report within 90 days of loss)
-

Contact Info

Mindy Eisenberg-Stark CPA CFE
88 Bonnie Meadow Rd
Scarsdale NY 10583

Tel 914-725-8880
Fax 914-725-8881
Mindy.Stark@mescpa.com