

ACCOUNTS PAYABLE FRAUD

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OBJECTIVES

- × Fraud overview
- × Examples of accounts payable fraud
- × Accounts payable indicators of fraud
- × Preventing fraud
- × Detecting fraud
- × Red flags

DEFINITION AND COST OF FRAUD

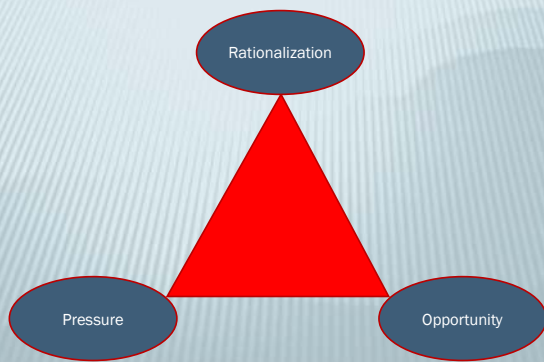
- × “ Deceit, trickery, sharp practice, or breach of confidence, perpetrated for profit or to gain some unfair or dishonest advantage.”
 - + **Source:** Dictionary.com. *Dictionary.com Unabridged*. Random House, Inc.
- × Estimated 7% of annual revenues for all U.S. organizations are lost to fraudulent activities
 - + **Source:** 2008 Report to the Nation on Occupational Fraud & Abuse written by the Association of Certified Fraud Examiners (ACFE)

MYTHS



- × It could never happen here . . .
- × My employees would never steal from me . . .
- × We have a good segregation of duties, except for a few long-term, trusted employees . . .
- × Fraud is not material . . .
 - + “There are no immaterial frauds, only ones with insufficient time to grow.” by W. Steven Albrecht, president of ACFE
- × We are audited every year and fraud has not been found, sooooo . . .

HOW CAN FRAUD OCCUR?



TRUTHS – OCCUPATIONAL FRAUD – GOVTS

- × Median loss
 - + \$100,000
- × Median time length of fraud
 - + 24 months
- × Detection method at governments
 - + 50% by tips
 - + 27% by internal audit
 - + 20% by internal controls
 - + 17% by accident
- × Longer-term EEs commit higher-dollar frauds



TRUTHS – THE PERPETRATOR



- × Acts alone
 - + 67% of the time
- × First-time offenders
 - + 87% had never been charged with a fraud-related offense
- × Age
 - + Most are over 40 years of age
- × Wages
 - + Over 40% make less than \$50K
- × Gender
 - + 59% are males
- × Education
 - + 55% have some college or bachelor's degree
- × Job
 - + Almost 30% work in Accounting – OOPS!!!
 - + Executive/Upper Mgmt is a close second

EXAMPLES OF A/P FRAUD

- × Check tampering
 - + When a valid check is altered after it is prepared to convert the check to another use
 - + Usually easily detected = Why?
 - × Vendor will not receive the intended payment and will send another bill
- × Expense reimbursements
 - + When an employee seeks reimbursement for a non-business related expense
- × Billing
 - + When an employee causes the employer to issue a payment for fictitious goods or services, inflated invoices, or invoices for personal purchases

CHECK TAMPERING



- × Examples
 - + EE steals blank company checks, makes them payable to himself or an accomplice
 - + EE steals outgoing check to a vendor and deposits it into his own bank account
- × Median loss per fraud reported
 - + \$138,000

EXPENSE REIMBURSEMENTS



- × Examples
 - + EE files fraudulent expense report claiming personal travel, nonexistent meals, etc.
 - + EE purchases two plane tickets, one at lowest price, one at highest price. EE travels using the lower ticket but requests reimbursement for the higher ticket. EE then receives refund from airline for unused higher ticket.
- × Median loss per fraud reported
 - + \$25,000

BILLING



- × Examples
 - + EE creates a shell company and bills employer for nonexistent services
 - + EE purchases personal items then submits invoice to employer for payment
- × Median loss per fraud reported
 - + \$100,000

ACCOUNTS PAYABLE INDICATORS OF FRAUD

- × Four indicator categories

- + Address
- + Phone
- + Document
- + Behavioral



FRAUD INDICATORS - ADDRESS



- × Post office box
- × Mail drop/Remailing services
- × Same address as employee
- × Multiple companies at same address

FRAUD INDICATORS - PHONE



- × No phone listed in vendor file
- × Phone number is someone's home phone
- × Phone is only answered by a machine

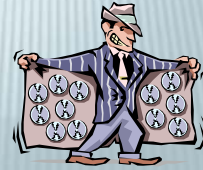
FRAUD INDICATORS - DOCUMENT



- × Invoice numbering
- × Photocopied invoices
- × Invoice numbers are duplicate
- × Invoice numbers not chronologically sequenced
- × Computer-generated invoices

FRAUD INDICATORS - BEHAVIORAL

- × Amount is just below a threshold
- × Amount is always rounded
- × Knock-off names
- × Frequent unexplained vendor visits



PREVENTING FRAUD



- × Be PROACTIVE not REACTIVE
- × Examine your internal controls
 - + Fraud hotlines
 - + Mandatory vacations/job rotation
 - + Surprise audits
- × Screen your employees
 - + Ongoing - NOT just when they were hired
- × Think like a crook
 - + "How would I do this if I was crooked?"
- × Trust, but verify

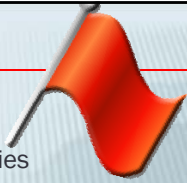
DETECTING FRAUD

- × Establish a fraud hotline
- × Cross-checks between vendor file and EE file
- × Scan for duplicate payments



RED FLAGS

- × Living beyond means
- × Experiencing financial difficulties
- × Unwillingness to share duties; control issues
- × Divorce or family problems
- × Wheeler-dealer attitude
- × Irritability, suspiciousness, or defensiveness
- × Addiction problems



QUESTIONS

