

# The Anatomy of Fraud

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## Healthy Utah Checkup

1. The Fraud Triangle
2. Separation of duties
3. Independent Checks
4. Management Review
5. Budgeting
6. Internal Controls
7. Policies and procedures



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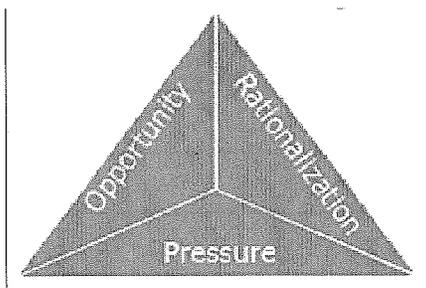
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## 1. Fraud Triangle



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### Fraud Triangle: Opportunity

- Opportunity is generally provided through weaknesses in the internal controls



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### Fraud Triangle: Pressure

- Pressure can be imposed by:
  - Personal financial problems
  - Personal vices/addictions
  - Management expectations or unrealistic deadlines



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### Fraud Triangle: Rationalization

- Rationalization occurs when the individual develops a justification for their fraudulent activities



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## 2. Separation of Duties

- **Custody of assets** - Custodian of cash and checks received (Treasurer)
- **Recording and Reporting** - Maintains financial records and prepares disbursements (City Clerk)
- **Authorization** - Provides authorization and review of transactions (City Council)

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## 3. Independent Checks

- Cash drawer counts
  - Proactive audit approach
- Bank reconciliations
  - Monthly
  - Resolve all unreconciled items
  - Dixie College example
- Unexpected receipts
  - Follow receipting policies and procedures



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## 4. Management Review

- Financial statements
- Quarterly reports
- Response to audit findings
  - Lack of separation of duties
  - Lack of accounting expertise



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## Quarterly Reports

*The governing body shall review detailed quarterly financial reports for that quarter and the year to date status.*

- Detail List of Receipts
- Detail List of Expenditures
- Cash balance in bank account.
- List of liabilities.
- Comparison to Bank Statements.
- Invoices supporting payments available for inspection.



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## 5. Budget

The budget shall:

- Provide a financial plan.
- Specify:
  - estimates of all anticipated revenues
  - all appropriations for expenditures.



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## Budget Officer's Duties

The budget officer (Clerk or Treasurer) shall require all expenditures to conform with the budget.



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## Budgeting

- Public has the opportunity to provide input.
- The budget constitutes spending authority.
- The local govt body legally binds itself to spend this much and no more.
- Any expenditure in excess of the budget is illegal, even if the local government has money available to spend.



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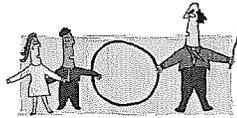
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## 6. Internal Control

- Internal Control is a process designed to provide reasonable assurance regarding the achievement of objectives.
  - One employee reviews another's work.



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## Why Internal Controls are important

- They keep honest people... honest!
- They protect you against false accusations
- They ensure safeguarding of assets and resources
- They protect the public trust



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### Internal Control Limitations

- Human Judgment
  - Errors
  - Mistakes
- Management Override
- Collusion
- Cost Benefit
- Complexity of Controls



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### Perception of Detection

- ACFE Says:
  - Controls do little to forestall theft if their presence is not known by those at risk.
    - Employee education
    - Reporting programs
    - Hotlines / Rewards
    - Proactive audit policies



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### Which of the following individuals most fits the statistical profile of an occupational fraudster?

- a) 22-yr old customer service rep, employed for 5 mo., HS diploma and charged with petty theft at 19
- b) 38-yr old college graduate, employed for 3.5 yrs, with no criminal background
- c) 53 yr old vice president, employed for 25 yrs, charged and cleared for passing two bad checks
- d) 57 yr old warehouse foreman, HS dropout, employed for 10 years, two prior convictions of assault



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## Summary

- Ethical environment
- Internal controls
- Education
- Hotline
- Active involvement



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## Hotline

Resource for citizens to call to  
report concerns

[hotline.utah.gov](http://hotline.utah.gov)  
1-800-622-1243

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[auditor.utah.gov](http://auditor.utah.gov)

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