

MMTCTA  
Fraud – Internal Controls

Presented By Ron Smith & Greg Chabot, RHR Smith & Co.  
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**About RHR Smith & Company:  
RHR does approx 130 of Maine's 500 Municipalities  
In the past year RHR has Investigated 23+  
(18%) cases of Fraud or Abuse**

**Ron & Greg have over 50 years collectively of this  
specialty area as it pertains to you**



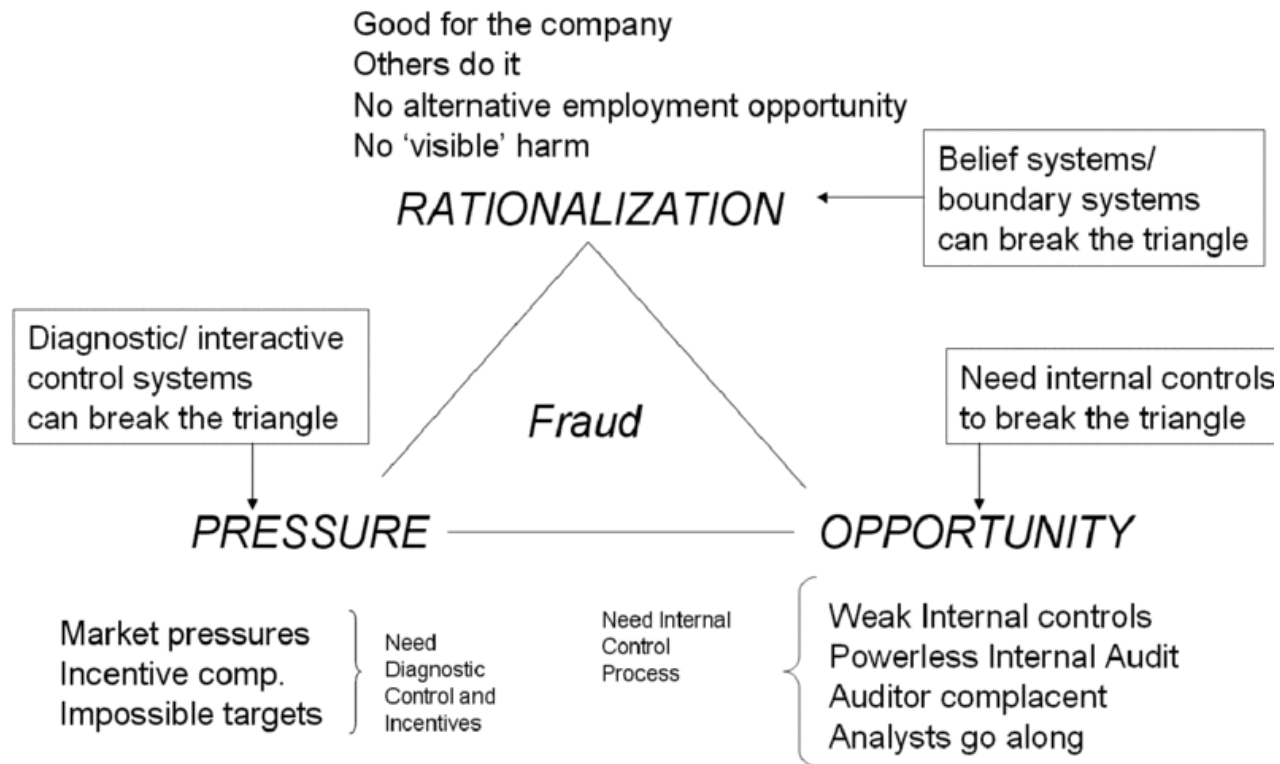
# Definition of Fraud

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**Fraud** is an intentional deception made for personal gain

# Fraud Triangle

## Fraud Triangle



# Types of Fraud

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- ❑ Misstatements arising from fraudulent financial reporting.
- ❑ Misstatements arising from misappropriation of assets.

# Fraudster Statistics

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- ❑ Most fraudsters are middle class, white males with a social status.
- ❑ Behavior is learned.
- ❑ Social Status is important to fraudsters
- ❑ About 1 in 5 receive prison time.

# Having Said That

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- ❑ Out of 23 investigations 1 of the suspects was male (4%)
- ❑ Most of these cases pertaining to Municipalities included, Tax Collector, Treasurer, or Deputy in each instance.
- ❑ 3 Cases involved Federal Funds leading to Questioned Costs.

# Internal Controls & Fraud - Defined

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- ❑ An accounting procedure or system designed to promote efficiency or assure the implementation of a policy or safeguard assets or avoid fraud and error etc.
- ❑ In accounting and auditing, internal control is defined as a process effected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives.
- ❑ A coordinated system of procedures and techniques designed to safeguard a company's assets, to ensure the accuracy of its accounting records, and to promote efficiency and adherence to prescribed policies.

# Level of Responsibility - Auditor

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## **Auditors Assurances:**

### **3) Auditor's Procedures—General (Taken from a standard engagement letter)**

**"An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity."**



# COSO

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## Committee of Sponsoring Organizations Internal Control Framework



Image Source: [www.journalofaccountancy.com](http://www.journalofaccountancy.com)

# Internal Controls & Fraud

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## 5 Components of Internal Controls

- 1) Control Environment
- 2) Risk Assessment
- 3) Control Activities
- 4) Information & Communication
- 5) Monitoring

“Your Government is Responsible”

# Internal Controls – Control Environment

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It means the overall attitude, awareness and actions of directors and management (i.e. "those charged with governance") regarding the internal control system and its importance to the entity. They express it in management style, government culture, values, philosophy and operating style, the organizational structure, and human resources policies and procedures.

IE: System of Integrity, hire competent people, get them trained, reasonable organizational structure.

# Internal Controls – Risk Assessment

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Risk assessment is the determination of quantitative or qualitative value of risk related to a concrete situation and a recognized threat (also called hazard). *Quantitative risk assessment* requires calculations of two components of risk ( $R$ ):, the magnitude of the potential loss ( $L$ ), and the probability ( $p$ ) that the loss will occur.

# Internal Controls - Control Activities

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**Control activities.** **Control activities** are the specific policies and procedures management uses to achieve its objectives. The most important control activities involve segregation of duties, proper authorization of transactions and activities, adequate documents and records, physical control over assets and records, and independent checks on performance. A short description of each of these control activities appears below.

**Segregation of duties** requires that different individuals be assigned responsibility for different elements of related activities, particularly those involving authorization, custody, or recordkeeping. For example, the same person who is responsible for an asset's recordkeeping should not be responsible for physical control of that asset. Having different individuals perform these functions creates a system of checks and balances.

**Proper authorization** of transactions and activities helps ensure that all company activities adhere to established guide lines unless responsible managers authorize another course of action. For example, a fixed price list may serve as an official authorization of price for a large sales staff. In addition, there may be a control to allow a sales manager to authorize reasonable deviations from the price list.

# Internal Controls - Control Activities (Cont)

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**Adequate documents and records** provide evidence that financial statements are accurate. Controls designed to ensure adequate recordkeeping include the creation of invoices and other documents that are easy to use and sufficiently informative; the use of pre-numbered, consecutive documents; and the timely preparation of documents.

**Physical control** over assets and records helps protect the company's assets. These control activities may include electronic or mechanical controls (such as a safe, employee ID cards, fences, cash registers, fireproof files, and locks) or computer-related controls dealing with access privileges or established backup and recovery procedures.

# Internal Controls – Information & Communication

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Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

# Internal Controls – Monitoring

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Monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

Monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.



# Levels of Responsibility

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- That percentage represents 20% up front of RHR client population
- Apply that to all Maine Municipalities annually, it approximates 100 Communities with a poor choice being committed currently

## **Auditors Assurances:**

### **3) Auditor's Procedures—General (Taken from a standard engagement letter)**

**“An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.”**



# Types of Fraud or Mismanagement:

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- **Monetary Theft (Town Office, Recreation, Transfer Station, Rescue, Library)**
- **Travel Abuse**
- **Use of Postage Meter For Personal Use**
- **Cell Phone Abuse for Personal Use**
- **Use of Inventoried Gasoline**
- **Personal Use of Government Credit Accounts Such as Sams, Walmart, Staples**
- **Awarding of Contracts Creating Personal Gain**
- **Payroll Fraud**
- **Misuse of Federal & State Funds.**
- **Non filing of Liens (Collector & Liens)**

# Statutory Responsibilities: Governing Body (Selectmen/Council)

## **Governing Body's Job is To "Carry Out The will of the People"**

**8. Municipality.** "Municipality" means a city or town, except as provided in chapter 225.

- [ 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §13 and Pt (AMD) .]

**9. Municipal legislative body.** "Municipal legislative body" means:

- A. The town meeting in a town; [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]
- B. The city council in a city; or [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]
- C. That part of a municipal government that exercises legislative powers under a law or charter. [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]

[ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]

**10. Municipal officers.** "Municipal officers" means:

- A. The selectmen or councilors of a town; or [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]
- B. The mayor and aldermen or councilors of a city. [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]

[ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]

**11. Municipal official.** "Municipal official" means any elected or appointed member of a municipal government.

# Town Manager:

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- ❑ **§2636. Powers and duties of town manager**
- ❑ The town manager: [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]
- ❑ 1. Executive and administrative officer. Is the chief executive and administrative official of the town;
  - ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 2. Administer offices. Is responsible to the selectmen for the administration of all departments and offices over which the selectmen have control;
  - ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 3. Execute laws and ordinances. Shall execute all laws and ordinances of the town;
  - ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 4. Department head. Shall serve in any office as the head of any department under the control of the selectmen when directed by the selectmen;
  - ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]

# Town Manager (Continued)

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- ❑ 5. Appoint department heads. Shall appoint, subject to confirmation by the selectmen, supervise and control the heads of departments under the control of the selectmen when the department is not headed by the town manager under subsection 4;
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 6. Appoint town officials. Unless otherwise provided by town ordinance, shall appoint, supervise and control all town officials whom the municipal officers are required by law to appoint, except members of boards, commissions, committees and single assessors; and appoint, supervise and control all other officials, subordinates and assistants, except that the town manager may delegate this authority to a department head and report all appointments to the board of selectmen;
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 7. Purchasing agent. Shall act as purchasing agent for all departments, except the school department, provided that the town or the selectmen may require that all purchases greater than a designated amount must be submitted to sealed bid;
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 8. Attend meetings of selectmen. Shall attend all meetings of the board of selectmen, and the town manager may attend meetings when the manager's removal is being considered;
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 9. Make recommendations. Shall make recommendations to the board of selectmen for the more efficient operation of the town;
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]

# Town Manager (Continued)

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- ❑ 10. Attend town meetings. Shall attend all town meetings and hearings;
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 11. Inform of financial condition. Shall keep the board of selectmen and the residents of the town informed as to the town's financial condition;
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 12. Collect data. Shall collect data necessary to prepare the budget;
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 13. Assist residents. Shall assist, insofar as possible, residents and taxpayers in discovering their lawful remedies in cases involving complaints of unfair vendor, administrative and governmental practices; and
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ 14. Remove appointments. Has exclusive authority to remove for cause, after notice and hearing, all persons whom the manager is authorized to appoint and report all removals to the board of selectmen.
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]
- ❑ SECTION HISTORY 1987, c. 737, §§A2,C106 (NEW). 1989, c. 6, (AMD). 1989, c. 9, §2 (AMD) 1989, c. 104, §§C8,10 (AMD).

# Treasurer:

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## ❑ **§5603. Powers and duties**

- ❑ The treasurer has the following powers and duties. [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]
- ❑ 1. Powers. The treasurer may:
  - ❑ A. Make deductions from the salary of a municipal employee and pay the money deducted to the proper payee, when the employee gives the written authority to do so. The treasurer's authority to make a deduction continues until:
    - ❑ (1) The employee revokes the authorization in writing; or
    - ❑ (2) The treasurer knows that the reason for the deduction no longer exists. [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]
- ❑ [ 1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD) .]

# Treasurer (Continued)

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- ❑ 2. Duties. The treasurer shall:
  - ❑ A. Except as provided in subparagraphs (1) to (3), and except as otherwise provided by charter or ordinance, disburse money only on the authority of a warrant drawn for the purpose, affirmatively voted and signed by a majority of the municipal officers.
  - ❑ (1) The municipal officers may adopt a written policy to permit the disbursement of employees' wages and benefits when a disbursement warrant has been signed by one or more designated municipal officers. The policy must be filed with the town clerk and the municipal treasurer and renewed annually by vote of the municipal officers.
  - ❑ (2) The municipal officers may adopt a written policy to permit the disbursement of payments for municipal education costs when a disbursement warrant has been signed by the school superintendent and approved by a majority of the school board or by a finance committee appointed or duly elected by the school board. The policy must be filed with the town clerk and the municipal treasurer and renewed annually by vote of the municipal officers.
  - ❑ (3) The municipal officers may adopt a written policy to permit the disbursement of state fees when a disbursement warrant has been signed by one or more designated municipal officers. The policy must be filed with the town clerk and the municipal treasurer and renewed annually by vote of the municipal officers; [2009, c. 6, §1 (AMD).]



# Treasurer (Continued)

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- ❑ B. Upon request, provide an account of the finances of the municipality and exhibit the official records to the municipal officers or to any committee appointed by them to examine the accounts. The municipal officers shall examine the treasurer's accounts at least once every 3 months; and [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]
- ❑ C. Maintain a bank account in the municipality's name for the deposit of cash receipts. The treasurer shall deposit all cash receipts in the bank within 10 days. The treasurer may not commingle funds of the municipality with any personal funds or in any personal account of the treasurer. [2009, c. 193, §2 (AMD).]
- ❑ [ 2009, c. 6, §1 (AMD); 2009, c. 193, §2 (AMD) .]
- ❑ SECTION HISTORY 1987, c. 737, §§A2,C106 (NEW). 1989, c. 6, (AMD). 1989, c. 9, §2 (AMD). 1989, c. 104, §§C8,10 (AMD). 1991, c. 271, (AMD). 1993, c. 96, §2 (AMD). 1995, c. 83, §1 (AMD). 1995, c. 549, §1 (AMD). 2009, c. 6, §1 (AMD). 2009, c. 193, §2 (AMD).

# Tax Collector:

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- **§753. Municipal tax commitment; form**

The State Tax Assessor shall annually, before April 1st, prescribe the form of the municipal tax commitment to be used by municipal assessors in committing property taxes to the municipal tax collector. [P&SL c. 78, §21.]

- **§755. Bond**

The municipal officers shall require each tax collector to give a corporate surety bond for the faithful discharge of his duty, to the inhabitants of the municipality, in the sum, and with such sureties as the municipal officers approve. The tax collector may furnish a bond signed by individuals if such individuals submit to the municipal officers a detailed sworn statement as to their personal financial ability, which shall be found acceptable by the municipal officers. [1973, c. 695, §18 (RPR).]

Such bond shall, after its approval and acceptance, be recorded by the clerk in the municipal records, and such record shall be prima facie evidence of the contents of such bond, but a failure to so record shall be no defense in any action upon such bond. [1973, c. 695, §18 (RPR).]

SECTION HISTORY 1973, c. 620, §25 (AMD). 1973, c. 695, §18 (RPR).

# Tax Collector: (Continued)

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- **§757. Receipts for taxes**

When a tax is paid to a tax collector, he shall prepare a receipt for each payment; and upon reasonable request therefore, shall furnish a copy of such receipt to the taxpayer.

- **§759. Accounting; penalties**

Every tax collector shall, on the last day of each month, pay to the municipal treasurer all moneys collected by him, and once in 2 months at least shall exhibit to the municipal officers a just and true account of all moneys received on taxes committed to him and excise taxes collected by him, and produce the treasurer's receipt for money by him paid. For each neglect, he forfeits to the municipality \$100 to be recovered by the municipal officers thereof in a civil action.

- **§759-A. Prohibition on commingling funds**

A tax collector is prohibited from commingling personal funds with any funds collected for a municipality while performing the duty of tax collector. [2009, c. 193, §3 (NEW).]

- **§760. Perfection of collections**

Municipal assessors, or municipal officers in the case of primary assessing areas, shall specify in the collector's warrant the date on or before which the tax collector shall perfect his collections. Such date shall not be less than one year from the date of the commitment of taxes. In the event that no time is specified in the collector's warrant, tax collectors shall perfect their collections within 2 years after the date of the commitment of taxes. [1973, c. 695, §19 (AMD).]

- **§761. -- failure; action**

An action against a tax collector for failure to perfect his tax collections shall be commenced within 6 years after the date of such collector's warrant.

# Types Of Things To Do To lead You To Know What To Do and How To Fix It:

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## Managers, Administrators & Treasurers:

- 1) Regular, Entrance & Exit Conference with Auditors.
- 2) Randomly Look at Bank Statements.
- 3) Send out Blanket Bank Account Confirmations during the Year to Local Banks.
- 4) Review "Deficiency List" with Motor Vehicle.
- 5) Perform Reference Checks on Fiscal Hires
- 6) Get Copy of RHR IC Checklists (being updated as we speak)
- 7) Review Procurement Policies & Bid Awards
- 8) Regular Fiscal/Department Head Meetings
- 9) Review Offsite Municipal Premises
- 10) "Software Bypassed Discussion"

# Statutory Requirements General Provisions

- ❑ **§5721. General authority**
- ❑ A municipality may raise or appropriate money for any public purpose, including, but not limited to, the purposes specified in sections 5722 to 5728. [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]

- ❑ **Subchapter 4: EXPENDITURES**

- ❑ 30-A §5721. General authority
- ❑ 30-A §5721-A. Limitation on municipal property tax levy
- ❑ 30-A §5722. Operating expenses
- ❑ 30-A §5723. Public works
- ❑ 30-A §5724. Schools and libraries
- ❑ 30-A §5725. Health and welfare
- ❑ 30-A §5726. Development
- ❑ 30-A §5727. Celebrations and commemorations
- ❑ 30-A §5728. General duties and operations

And others which are appropriate:

- ❑ 30-A §5729. Federal and state grants
- ❑ 30-A §5730. Historic and scenic preservation

# Statutory Requirements - Policies

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## ❑ **§5603. Powers and duties**

- ❑ (1) The municipal officers may adopt a written policy to permit the disbursement of employees' wages and benefits when a disbursement warrant has been signed by one or more designated municipal officers. The policy must be filed with the town clerk and the municipal treasurer and renewed annually by vote of the municipal officers.
- ❑ (2) The municipal officers may adopt a written policy to permit the disbursement of payments for municipal education costs when a disbursement warrant has been signed by the school superintendent and approved by a majority of the school board or by a finance committee appointed or duly elected by the school board. The policy must be filed with the town clerk and the municipal treasurer and renewed annually by vote of the municipal officers.
- ❑ (3) The municipal officers may adopt a written policy to permit the disbursement of state fees when a disbursement warrant has been signed by one or more designated municipal officers. The policy must be filed with the town clerk and the municipal treasurer and renewed annually by vote of the municipal officers; [2009, c. 6, §1 (AMD).]

## ❑ **§5604. Payment out of treasury**

- ❑ The treasurer of any municipality shall not pay out any funds for an account or claim against the municipality unless the account or claim is itemized and declared to be a public record. Notwithstanding Title 17-A, section 4-A, violation of this section is a Class E crime, punishable by a fine of not more than \$300 or by imprisonment for not more than 30 days, or both. [1987, c. 737, Pt. A, §2 (NEW); 1987, c. 737, Pt. C, §106 (NEW); 1989, c. 6, (AMD); 1989, c. 9, §2 (AMD); 1989, c. 104, Pt. C, §§8, 10 (AMD).]



# Red Flags

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- ❑ Segregation of Duties (lack of)
  - No person should be in a position to both commit a fraud and conceal it.
  - Not Possible?? Compensating Controls
- ❑ No or Minimal Vacation
  - Fraudster wants to control the information
  - Duties should periodically be done by others
- ❑ Excessive Journal Entries
  - Journal Entry Approval?



# Red Flags

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## □ Receipts

- No receipt for EVERY Transaction
- Co-mingled Cash Drawers and Journals

## □ Deposits

- Not Made Intact
- Not made timely (Daily is best)

## □ Motor Vehicle & Excise

- Manual System
- No Control of Forms
- Reporting to BMV is slow





# Red Flags

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- ❑ Account Reconciliation (Slow or Missing)
  - Cash Accounts
  - Subsidiary Accounts to General Ledger
  
- ❑ Vendor Payments
  - Lack of Physical Address
  - Delivered to Department rather than Mailed
  - No Purchase Order
  - Quantities Don't Make Sense
  - Payments from Copies rather than Originals



# Red Flags

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- Corporate Culture or Environment
  - Controls are Red Tape
    - We'd be more efficient without these procedures
  - Outdated Controls or Procedures
  - Inappropriate Account Coding
    - Charging where the money is not where it belongs
  - Deceptive Practices
  - Uncooperative with Auditors
  - Signatures are Autographs
  - Reluctance to Provide Reporting to Board



# Red Flags

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- ❑ Corporate Culture or Environment
  - No Controls or Procedures
  - No Employee Background checks
  - No testing
    - ❑ Employee Payout
    - ❑ Unannounced Reviews
  - No Analytic Review
  - No Channel for Reporting Suspected Fraud

# HEY - We Have A Problem!

## What Not To Do?

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- 1) Immediately Make The Problem Known. (48 hrs)
- 2) Make Immediate Changes.
- 3) Make accusations (Confront Individual(s))
- 4) Wait to the Person Leaves and Access His/Her Computer.
- 5) Block Individual From Performing Everyday Normal Work.
- 6) Don't Jump To Conclusions.
- 7) Don't Break The Law.

# HEY- We Have A Problem!

## What To Do?

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- 1) Understand the Problem (48 hrs).
- 2) Identify all Possible Parties Involved.

If the Problem Is Real:

- 3) Recognize Who You Are and Who Your Supervisor Is.
- 4) Go To Your Supervisor.
- 5) Educate Supervisor.
- 6) Consult Auditor & Legal.

If the Problem Is real:

- 7) Notify Insurance Department.
- 8) Seek out Proper Judicial Authority.
- 9) Notify Chair of Audit Committee if not Chair of Board/Council.
- 10) Call A full Board Meeting & Shut the Door under MRSA 1 Legal protection.

# Disclosure To The Public

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"After you Understand the "Cucka" and there is a Problem:

After Discussion with All Pertinent Parties, Come out of Executive Session:

" We have Been Advised By Our Legal Counsel To "Place individual on Paid Leave/Terminate Individual For A Violation of "Cite Policy" or "Statute"."

"At This Time we Cannot Comment Any Further on This Matter Because of an Ongoing Investigation"

"Know that Regulators (Enforcement) will need time to understand and take appropriate action."



# Questions & Answers:

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