

THE ART OF (CYBER) WAR

Cyber Defense Initiative Conference 2009

Whistleblowing

and

Security Management

Whistleblowing and Security Management

Potential Exposures / misconduct and Fraud Symptoms – Red Flag

[Additional Slides from Presentation on 10 November 2009]

www.tisa.or.th

www.itgthailand.com

www.acisonline.net

www.nectec.or.th

www.swpark.or.th

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures / misconduct include:

- Missing documentation.
- Shortages in cash drawers (the employee has stolen the money).
- Overages in cash drawers (the employee is getting ready to steal the money and has failed to record a sale, however, the money has not yet been pocketed).
- A bank deposit includes a check which is not rung on a cash register tape, recorded on a transaction log, or included in transactions for the day. This may indicate lapping of receivables, or other type of fraud involving cash receipts. Remember, about two-thirds of all thefts involve cash receipts.
- Control total of checks received does not balance to checks deposited.
- Excessive voids or refunds (refunds are being used to hide thefts).

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures include:

7. Common names or addresses for refunds.
8. Deposits in transit are slow in reaching the bank (thefts are being hidden by juggling the bank reconciliation).
9. Deposits in transit are growing.
10. Manual or computer detail does not equal control totals.
11. General ledger does not balance.
12. Customers complain, “I paid this.” This probably indicates lapping of receivables.
13. Adjustments to receivables (receipts are being pocketed and subsequent adjustments are necessary to correct the account that should have been credited when the payment was made).

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures include:

14. Increases in past due accounts (they are not really past due; someone has stolen the payment).
15. Increases in write-off of late charges made to customers.
16. No collections on past due or written-off accounts. Many organizations do not keep records of accounts that have been written off; thus, they are easy prey for the fraud perpetrator. When subsequent payments do arrive, perhaps from the bankruptcy trustee of the former customer, the money is pocketed without ever going into the organization's accounting records.
17. Adjusting entries lack formal approval.
18. Shortages in inventory.

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures include:

19. Adjustments to inventory.
20. Shortages on delivery.
21. Check amounts have been altered.
22. Goods purchased are in excess of needs (purchasing agent plans to use or sell the excess).
23. Delivery location is not your office, plant, or job site.
24. Duplicate payments.

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures include:

25. Discovering that employees have previously been convicted of a felony or accused of embezzlement. One large international corporation uncovered a \$250,000 fraud by an employee and then discovered that he had been previously convicted of a similar embezzlement while at a former job. The fraudster was at least somewhat honest. One question on the back of the organization's job application form asked whether the applicant had ever been convicted of a felony. The applicant checked "Yes" and then explained his earlier embezzlement. However, no one in the personnel department noticed the "Yes" answer since all applicants, honest or otherwise, always checked "No." The applicant was hired, and subsequently copied his earlier fraud scheme.

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures include:

26. Employees are not present at the payroll payoff.
27. Payroll checks have second endorsements.
28. Payroll checks have second endorsements by a boss.
29. Handwriting on endorsements does not match signatures on file. Pension companies typically audit signatures very closely because there are many occurrences of pensioners dying, followed by their heirs continuing to cash the checks. Routine audits of endorsements uncover such frauds.
30. Invoices are duplicates or copies (which means they may not be identical to the original).
31. Invoices are on plain paper, not preprinted forms.

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures include:

32. Old outstanding checks in bank reconciliations.
33. Payees have common names and/or addresses.
34. Address change, followed by a request for payment.
35. Activation of a dormant account, followed by a payment.
36. Vendor's address is the same as an employee address. This is more easily caught today with computer auditing. The auditor simply runs a comparison of employee addresses from the personnel records with the addresses of vendors. The result may show that a purchasing department employee is buying from a fictitious vendor housed in the employee's home.
37. Changes in logs, day books, time reports.

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures include:

38. Liquid paper and erasures on timecards.
39. Support for payment is not canceled or marked paid. Some fraud perpetrators have simply gone to the files and pulled out uncanceled invoices from several years ago and reprocessed those invoices for payment. The check is then intercepted and cashed by the employee.
40. An employee does not remember working on a job for which his hours were charged.
41. Payments made in currency when checks were expected.
42. IOUs or undated (or old) personal checks in petty cash and change funds.
43. Bill collectors visiting or calling employees. This can be determined by asking receptionists or secretaries if such calls or visits are being made.

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures include:

44. Gambling. Some internal auditors have been known to ask questions as to which employees are known to frequent casinos or race tracks. Some auditors even visit the track occasionally to be on the lookout for company employees.
45. Employees living beyond visible means. A person driving a \$250,000 car may be able to explain his good fortune as an inheritance, but auditors should still investigate such occurrences because not many people have big inheritances.
46. Annoyance at reasonable questioning.
47. Refusal to take vacations or promotions. All financial institutions have policies requiring employees to take their annual vacations. All companies should have such policies. The result could be that an employee who is perpetrating a fraud will not be able to continue hiding his thefts while away from the office.

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Potential Exposures / misconduct and Fraud Symptoms

Examples of symptoms and possible exposures include:

48. Extended illness of family member. It is amazing how often this leads to theft. It seems that the majority of embezzlements are predicated on this symptom. Thus, auditors may wish to determine which employees have made the greatest claims on their health insurance policies. Have any employees gone over the limits of their policies?
49. Rewritten records for “neatness reasons.”
50. Noticeable personality changes (which may be due either to the stress of financial duress or the use of expensive illegal drugs).
51. The presence of outside business interests (the business may be failing and using up all of a person’s personal assets).
52. Extensive overtime (employees has to work nights to “juggle” the books).
53. Extensive use of sick leave.

Thank You