



Dave Yost
Auditor of State



Ohio Auditor of State
Dave Yost

Fraud Red Flags & Proactive Prevention Activities

COAGAPDC – October 2011

www.auditor.state.oh.us

Session Objectives

- Take an “extensive” survey

- Introduce the Fraud Triangle and general red flags

- Identify prevention activities



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Survey – Question 1

Is your organization
proactive or reactive?



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Survey – Question 2

Does your organization
consider fraud risk a
business risk?



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Costs of Reactive

- NO (zero, zilch, nada) recovery (42%)
- 1%-25% of loss (23%)
- 26%-99% of loss (19%)
- 100% of loss (16%)

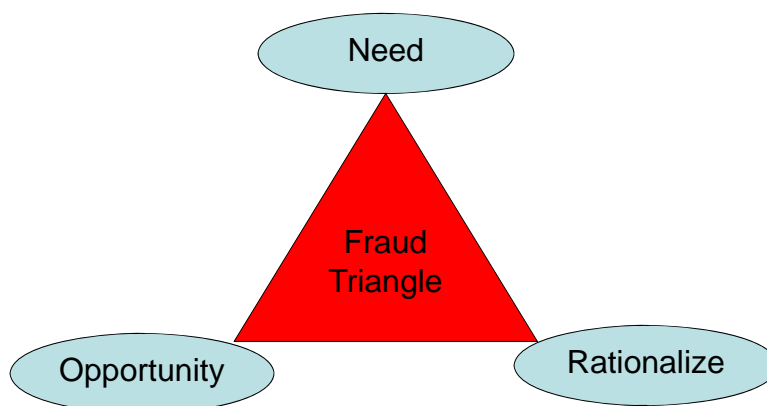
Association of Certified Fraud Examiners Report to the Nation on Occupational Fraud and Abuse 2006 ©.



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Cressey's Fraud Triangle



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

General Red Flags

- Lifestyle - changes or beyond means
- Personal financial position – debt/credit issues
- Weak internal controls
 - Especially segregation of duties
- Entity financial difficulties in good times
- Excessive journal entries
 - Year-end or adjusting entries



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

General Red Flags

- Unsupported transactions / journal entries / adjustments
- Unexpected overdrafts / declines in cash balances
- Photocopied or missing documents
- Altered documents / accounting records
- Make sense?
 - Business & common sense



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Behavior-related Red Flags

- Personality changes (increased stress)
- Vices and addictions – use imagination
- Refuse time-off / promotions
- Nonresponsive & delaying tactics
- Excessive borrowing from co-workers
- Creditors @ the workplace



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Behavior-related Red Flags

- Annoyed by reasonable questions
- Provides unreasonable responses
- Bragging on purchases / lifestyle
- Large sums of cash
- Rewriting records for “neatness”



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Fraud Prevention

Starting the Process

- Dedicated resources and commitment



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Fraud Prevention

Starting the Process

- Conduct risk assessment
- Cost - benefit analysis
- Quality considerations



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Fraud Prevention Program Code of Conduct



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Fraud Prevention Program

- Hotlines
- Strong hiring & promotion practices



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Fraud Prevention Program

- Appropriate Ethical Training
- On-going Risk Assessment Program
- Written policies & procedures
- Internal controls
- Segregation of duties
- Fair & balanced discipline
- Audit committees



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Fraud Prevention Program

- Fraud Training – executives, managers, employees
- External audits
- Internal audit departments
- Management monitoring



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Median Loss Based on Presence of Anti-fraud Controls				
Control	% of Cases Implemented	Yes	No	% Reduction
Surprise Audits	25.5%	\$70,000	\$207,000	66.2%
Job Rotation / Mandatory Vacation	12.3%	\$64,000	\$164,000	61.0%
Hotline	43.5%	\$100,000	\$250,000	60.0%
Employee Support Programs	52.9%	\$110,000	\$250,000	56.0%
Fraud Training for Managers / Executives	41.3%	\$100,000	\$227,000	55.9%
Internal Audit / FE Department	55.8%	\$118,000	\$250,000	52.8%
Fraud Training for Employees	38.6%	\$100,000	\$208,000	51.9%
Anti-Fraud Policy	36.2%	\$100,000	\$197,000	49.2%
External Audit of ICOFR	53.6%	\$121,000	\$232,000	47.8%
Code of Conduct	61.5%	\$126,000	\$232,000	45.7%
Management Review of IC	41.4%	\$110,000	\$200,000	45.0%
External Audit of F/S	69.6%	\$150,000	\$250,000	40.0%
Independent Audit Committee	49.9%	\$137,000	\$200,000	31.5%
Management Certification of F/S	51.6%	\$141,000	\$200,000	29.5%
Rewards for Whistleblowers	5.4%	\$107,000	\$150,000	28.7%



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

Session Summary

- Introduced the Fraud Triangle
- Identified prevention activities
- Not bore you to death



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us

**Kevin Saionzkowski
Special Audit Section**

88 East Broad Street
Columbus, Ohio 43215
Phone: (614) 728-7162
Fax: (866) 381-0114

E-mail:

KMSaionzkowski@auditor.state.oh.us

www.FraudOhio.com
Fraud Hotline: 1-866-FRAUD-OH
(614) 466-3786



Ohio Auditor of State
Dave Yost

www.auditor.state.oh.us



Dave Yost
Auditor of State

88 East Broad Street
Columbus Ohio, 43215

Phone: (800) 282-0370 Fax: (614) 466-4490

E-mail: contactus@auditor.state.oh.us

www.auditor.state.oh.us