



Fraud in 2018

What they are and how to protect yourself

Presented by:

Michael McCormack, BA, CFI
Investigative & Forensic Services

Social Engineering



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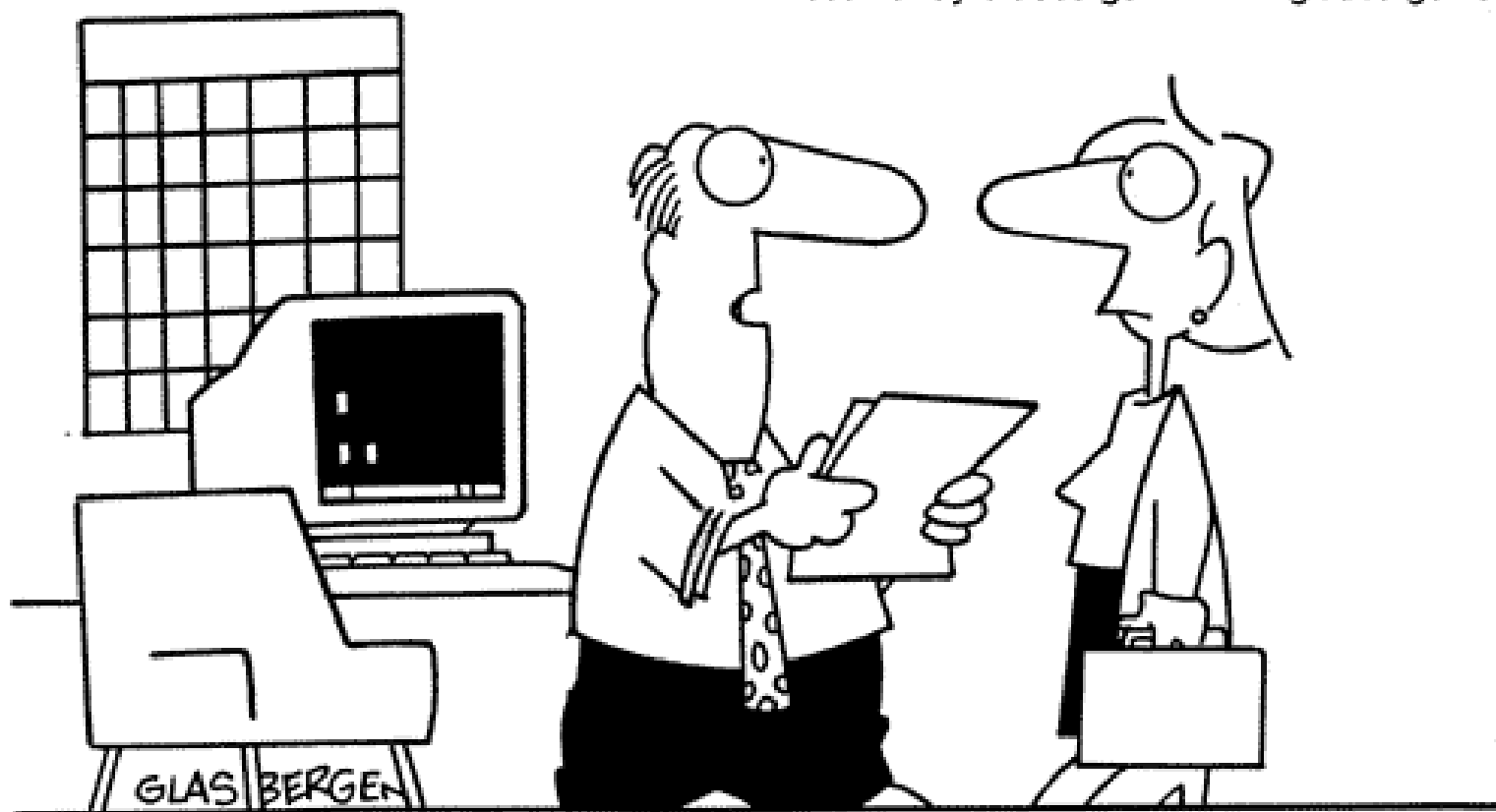
Social engineering

MacEwan University defrauded of \$11.8M in online phishing scam

Some funds still missing, most traced to bank accounts in Canada and Hong Kong

CBC News · Posted: Aug 31, 2017 1:47 PM MT | Last Updated: August 31, 2017





"When did the computer start writing itself a paycheck?"

Learning objectives

By the end of this presentation the learner should be able to:

- Be sceptical;
- Be cautious;
- Understand control weaknesses, and,
- Recognize the warning signs.

The Problem

First Nations and Aboriginal Organizations are more likely than other Canadian organizations to be targeted for fraud. Why?

Fraudsters target First Nations because:

1. They believe you can be easily deceived.
2. They don't believe First Nations have sufficient financial controls to catch them.
3. They think First Nations have lots of money to spend.
4. They don't think you will do anything about it, if they are caught.



The Problem

Fraudsters target First Nations because:



5. As some communities are remote, they think you have little choice when it comes to hiring contractors and vendors.
6. They believe they can just blame it on you and your managers.
7. They believe First Nations will not insist on tailored legal agreements with specific terms and conditions.

Forensic audit and the police

We are seeing more and more law enforcement agencies requiring forensic audits for simple frauds on First Nations. Why? Symptomatic of policing and difficulty investigating complex fraud matters. They will rely on:

- BCRs
- Policies and procedures
- Minutes of meetings
- Chief and Council decisions
- Emails and electronic evidence

Fraud vs theft

Theft is the felonious taking and removing of personal property with intent to deprive the rightful owner of it (without consent)



Fraud vs theft

Fraud is deliberate **deceit** which is planned and executed to **deprive** an individual of property, money or any other valuable security. Fraud is committed with **intent** and includes actions of misrepresentations and/or acts of omission.



What is Fraud?

Any intentional or deliberate act to deprive another of property or money by guile, deception, or other unfair means.

Unfair means include:

- ✓ False or misleading documents
- ✓ Deceptive behaviour
- ✓ Manipulating information
- ✓ Falsified financial reporting
- ✓ Bid-rigging
- ✓ Kickbacks

Fraud can only be committed by a person in a position of **TRUST**.

Fraud Statistics

Highlights of the Association of Certified Fraud Examiners *2018 Report to the Nations:*

- Fraud is extremely costly: on average, 5% of annual gross revenues are lost to fraud
- Fraud schemes went on an average of 18 months before detection
- The most common fraud types are billing schemes and corruption
- Anti-fraud programs and controls have a measurable impact on an organization's exposure to fraud
- The median loss in the **small business sector** is **\$145,000**
- Most frauds involved behavioural red flags of perpetrators living beyond their means or experiencing financial difficulty

<http://www.acfe.com/rtnn.aspx>

The internal fraudster



- Predominantly male
- Between 31-45 years of age (old fraudsters cause more damage)
- Most losses for employee over 10 years with the organization (6-10 years most likely)
- Lack of segregation of duties - TRUST
- No criminal record

Most prevalent frauds

- Contracts and vendors
- Cheque schemes
- Payroll
- Expense claims



Low hanging fruit

The principle of “low hanging fruit” simply means that employees will take the simplest and easiest method to obtain illicit monies from the employer.

- ✓ Expense claims
- ✓ Cheques
- ✓ Payroll
- ✓ Gas cards/credit cards



What should you be looking for

- Bank accounts
- Companies and their purposes
- Bank statements – cheques, EFTs, credit cards
- Payroll
- Vendors



Bank Accounts

Different funding agreements requires differential bank accounts. How many do you have and what is the purpose?

- ✓ Identify the accounts
- ✓ Identify the purposes
- ✓ Identify the activity

Bank accounts

What should be done?

- Make a list in excel.
- Ensure Chief and Council are the signers on all accounts
- Why are using multiple financial institutions?
- When were they opened and for what purpose?
- Close unused accounts – remove access and REMOTE access
- Review the past 6 months statements – how used
- Look for even amounts, EFTs, cheques to cash, Drafts

Bank accounts



FIRST BANK OF WIKI
 1425 JAMES ST, PO BOX 4000
 VICTORIA BC V8X 3X4 1-800-555-5555

CHEQUING ACCOUNT STATEMENT
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JOHN JONES
 1643 DUNDAS ST W APT 27
 TORONTO ON M6K 1V2

Statement period	Account No.
2003-10-09 to 2003-11-08	00005-123-456-7

Date	Description	Ref.	Withdrawals	Deposits	Balance
2003-10-08	Previous balance				0.55
2003-10-14	Payroll Deposit - HOTEL			694.81	695.36
2003-10-14	Web Bill Payment - MASTERCARD	9685	200.00		495.36
2003-10-16	ATM Withdrawal - INTERAC	3990	21.25		474.11
2003-10-16	Fees - Interac		1.50		472.61
2003-10-20	Interac Purchase - ELECTRONICS	1975	2.99		469.62
2003-10-21	Web Bill Payment - AMEX	3314	300.00		169.62
2003-10-22	ATM Withdrawal - FIRST BANK	0064	100.00		69.62
2003-10-23	Interac Purchase - SUPERMARKET	1559	29.08		40.54
2003-10-24	Interac Refund - ELECTRONICS	1975		2.99	43.53
2003-10-27	Telephone Bill Payment - VISA	2475	6.77		36.76
2003-10-28	Payroll Deposit - HOTEL			694.81	731.57
2003-10-30	Web Funds Transfer - From SAVINGS	2620		50.00	781.57
2003-11-03	Pre-Auth. Payment - INSURANCE		33.55		748.02
2003-11-03	Cheque No. - 409		100.00		648.02
2003-11-06	Mortgage Payment		710.49		-62.47
2003-11-07	Fees - Overdraft		5.00		-67.47
2003-11-08	Fees - Monthly		5.00		-72.47
*** Totals ***			1,515.63	1,442.61	

Companies

Have you set up numbered companies for funding purposes? This may be a requirement of your funder, however:

- Identify the directors of the company.
- Identify the bank accounts of the company.
- Identify when they were set up and for what purpose.
- Identify your responsibility in this company – bills, invoices, contracts

Companies

What should be done?

- Who has signing authority of the company's bank accounts?
- Have you reviewed the bank statements or credit card statements?
- What are articles of incorporation and how do they report to you?
- What is their financial status?
- What do they own and what do they owe? Do a Personal Property Security Registration – PPSR
- Record the assets including serial numbers - inventory



Payroll

One of the easiest methods of obtaining monies is through the payroll system:

- ✓ Identify your pay system. Off site does not mean safer.
- ✓ Identify the number of employees, pay scales, contracts etc.
- ✓ Identify who you are paying. eg: vendors or contractors
- ✓ Identify whether employees being paid through the vendor/AP system – vendor analysis
- ✓ Identify whether your remittances are being paid.

Payroll

What should be done?

- Review your payroll statement. Does the number of employees make sense
- Review your vendor list – search for employees in AP
- Do salaries match contracts or pay grids?
- **Check for advances**
- Check for additional pays, honorarium payments, expense claims, deductions and/vacation payouts
- The timing of payroll

Vendors

Understanding who you are doing business with and the means that they are being paid will decrease the likelihood of fraud:

- ✓ Identify vendors.
- ✓ Identify numbered companies.
- ✓ Identify employees.
- ✓ Identify unusual vendors/companies owned where there is conflict of interest

Vendors

What should be done?

- Conduct a vendor review.
- How much have you paid each vendor?
- Are there contracts? Where are they?
- Who are the contractors? Are they related parties? Are they numbered companies?
- Are there tenders/bids?



Where do we go from here?

Find fraud?

- **Don't fire the person.**
 - Quantify.
 - Determine if others involved.
 - Find out how.
 - Mitigate against lawsuits.
 - Get your lawyer involved.
 - Understand the cost of audits.



Determine next steps

Now what?

- ❖ Criminal investigation
- ❖ Civil litigation
- ❖ Recuperation of monies
- ❖ Indigenous justice



Protect yourself

Key Lesson to Learn: Consequences Matter

1. Stewardship of public funds – community money, not your money
2. Have appropriate response to fraud and wrongdoing
3. Consequences severe enough lead to pause and deterrence
4. Do Something as soon as you have suspicions
5. Communities are demanding better management
6. Projects are usually desperately needed – houses, schools, daycares, elders centres – and fraud sets them back years
7. Accountability cannot be delegated!!

Questions



**Michael McCormack,
BA, CFI**

📞 780.733.8673

✉ Michael.McCormack@MNP.ca