The Role of Finance Departments in Fraud Prevention
Prepared by: Bryan Gruber

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What is Internal Control?

- Process to achieve organization objectives
- **Comprehensive** system is necessary to provide **reasonable assurance** to achieve goals and objectives

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What makes for a Comprehensive Control Structure?

- **Components of Internal Control**
  - Control Environment
  - Risk Assessment
  - Control Activities
  - Information and Communication
  - Monitoring
Components of Internal Control

- **Control Environment**
  - Management attitude, integrity, ethics, values, authority and responsibility
- **Risk Assessment**
  - How you determined control activities
- **Control Activities**
  - The activities that address risks
- **Information and Communication**
  - How and when you communicate on control activities
- **Monitoring**
  - How you ensure control activities are working

How is Fraud Initially Discovered?

- Association of Certified Fraud Examiners (ACFE)

Stats:

- Approx. 40% Tips
- Approx. 15% Internal audit
- Approx. 15% Management review
- Approx. 5% Account reconciliation
Responsibilities for Internal Control

- Internal Control is not any “one” individual or department responsibility. Everyone plays a role.

  - Governing Board
    - Audit Committee
  - General Manager / City Manager
  - Departments / Business Units
  - Finance Department
  - Internal Audit
Audit Committee

- Key part of good control environment (tone)

- Specific subcommittee to address governing board responsibilities for **internal control** and **financial reporting**.

- Responsibilities include:
  - Audit Findings
  - Adjustments to Financial Reporting
  - Management Involvement Internal Control
  - Oversight of complaints

Management

- Key part of good control environment (tone)

- Responsibilities include:
  - Efficiency and Effectiveness of Organization
  - Compliance
  - Financial Reporting
  - Internal Controls to Achieve objectives
Risk Assessment

- Essential to good controls
- Not one size fits all approach. Unique to organization
- Includes various levels of management

Risk Assessment (Continued)

What to consider and evaluate:

- Changes in environment (Internal & External)

Inherent Risk
- Override of controls
- Cash
- Financial Reporting
- Centralization / Decentralization
- Prior Issues

- Significance and Likelihood
Control Documentation

• Document how transactions **should be** processed
  – Design and Implementation

• Don’t make documentation too complex
  – Flowchart and/or Narrative Form
  – Easy to understand
  – Cover all applicable departments and activities

• Working Document
  – Not designed to sit on shelf
  – Process to reevaluate

Separate Evaluations

• Routine Checkups. Who Performs?

• Available to Board

• Importance to include review of Departments/Business Units

• Vulnerability to Fraud Schemes

• Results of Tips
Findings

• Results of internal and external audits available management and board

• All findings should include:
  – Detailed explanation of issue
  – Corrective Action Plan
  – Timeline to address issue
  – Monitoring Progress mechanism

Monitoring Control Activities

Reconciliation
-Examples
-What are you Looking for?

• Considerations:
  -Who Should Perform?
  -How are Issues Handled?
  -What are Management Responsibilities?
Monitoring Control Activities (Continued)

**Verifications**
- Examples
- What are you Looking for?

• **Considerations:**
  - Who Should Perform?
  - How are Issues Handled?
  - What are Management Responsibilities?

Monitoring Control Activities (Continued)

**Analytical Review**
- Examples
- What are you Looking for?

• **Considerations:**
  - Who Should Perform?
  - How are Issues Handled?
  - What are Management Responsibilities?
Data Analytics
- Examples
- What are you Looking for?

• Considerations:
  - Who Should Perform?
  - How are Issues Handled?
  - What are Management Responsibilities?

Questions?
Focused on YOU