



Denver Auditor's Office Anti-Fraud Program

Presentation to the Audit Committee
December 16, 2010

John Carlson, Deputy Director, JD, CIA, CICA

Heather Darlington, Supervisor, CPA

Marcus Garrett, Lead Auditor, CIA, CGAP

Rudy Lopez, Lead Auditor

Manijeh Taherynia, Senior Auditor, CPA, CFE, CICA



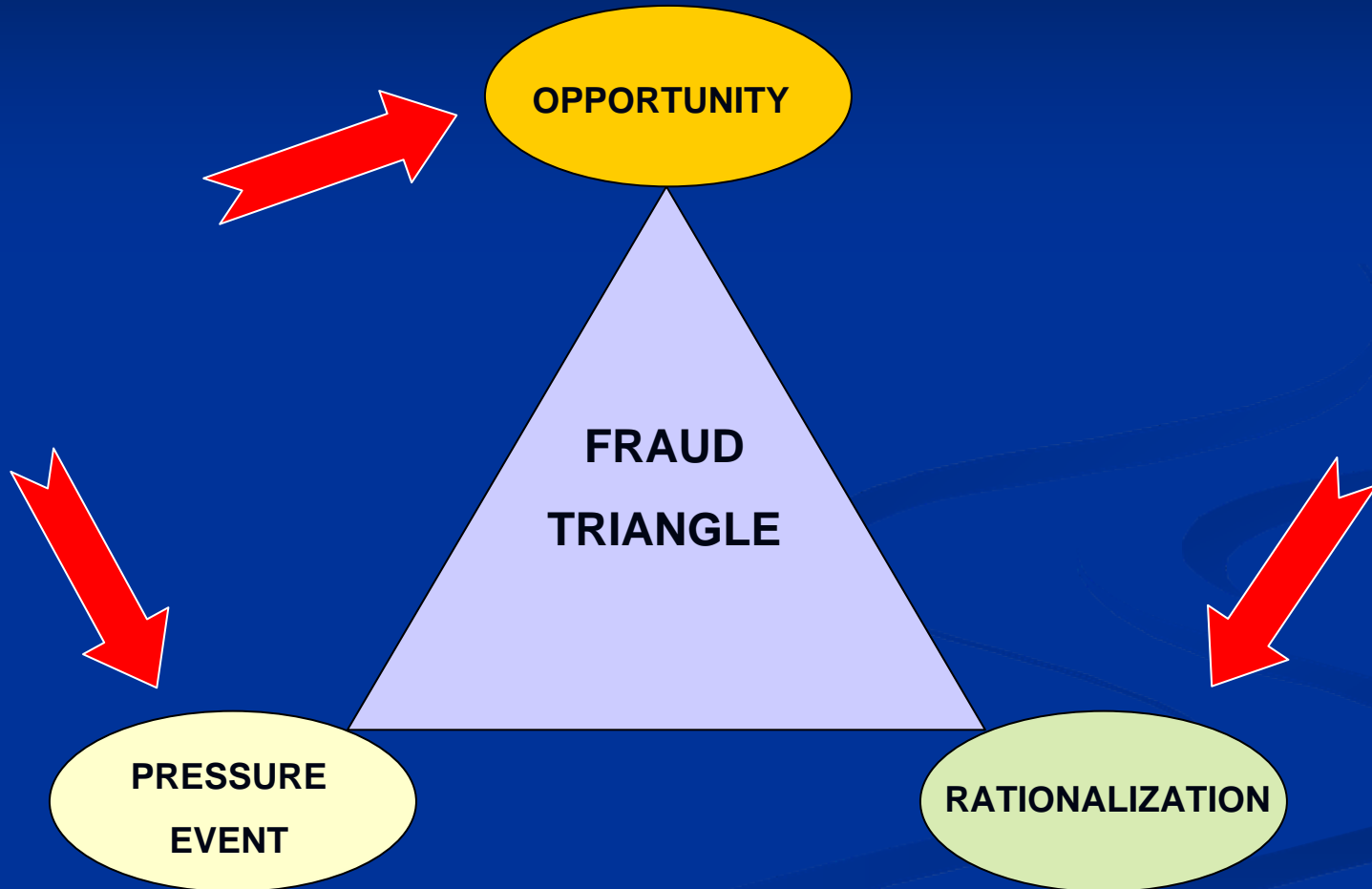
What is Occupational Fraud?

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

Source: Association of Certified Fraud Examiners, *2010 Report to the Nations on Occupational Fraud and Abuse*, page 6.



Deconstructing Causes of Fraud





Anti-Fraud Controls to Mitigate Fraud Opportunity

- Ensure anti-fraud controls are in place and operating effectively
 - Proper segregation of duties
 - Use of authorizations
 - Physical safeguards
 - Job rotations
 - Mandatory vacations
 - Pre-employment screening





Anti-Fraud Controls to Mitigate Fraud Pressure

- Ensure activities are in-place and effective to mitigate negative response to pressures
 - Human Resources Function
 - Employee Assistance Program
 - Employee Training Program
 - Pre-employment screening
 - Tone at the Top



PRESSURE EVENT



Anti-Fraud Controls to Mitigate Fraud Rationalization

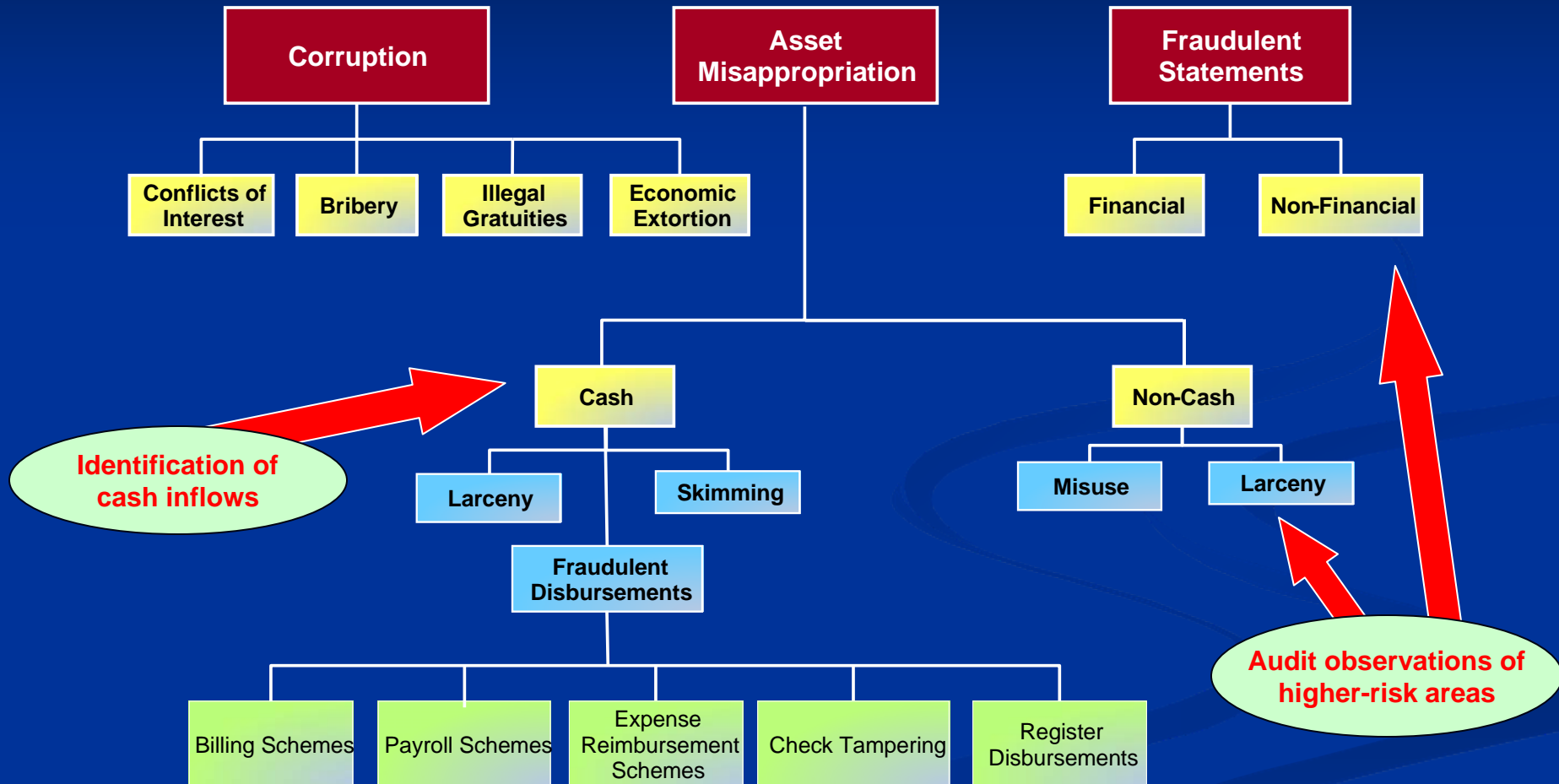
- Potential Mitigating Activities
 - Anti-Fraud Policy
 - Code of Conduct
 - Effective Ethics & Compliance Program
 - Anonymous Hotline
 - Periodic Ethics Training
 - Pre-employment screening



RATIONALIZATION



Occupational Fraud Classification System

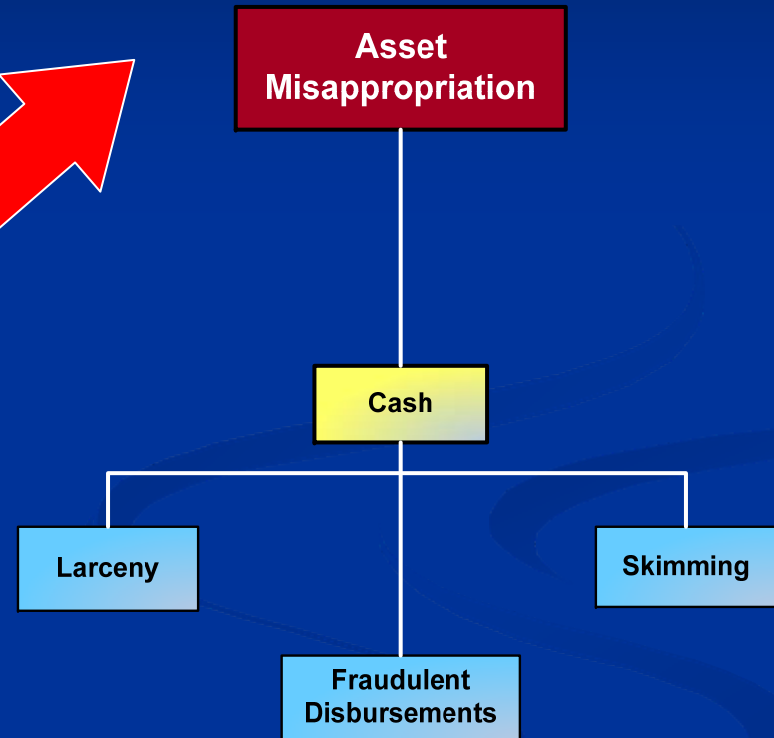


Source: Association of Certified Fraud Examiners, *2010 Report to the Nations on Occupational Fraud and Abuse*, page 7.



Anti-Fraud Program: Asset Misappropriation

- Ensure activities are in-place and effective to mitigate asset misappropriation:
 - Identify controls
 - City revenue/cash inflows
 - P-Cards & T-Cards
 - Expense reimbursements
 - Vendor billing

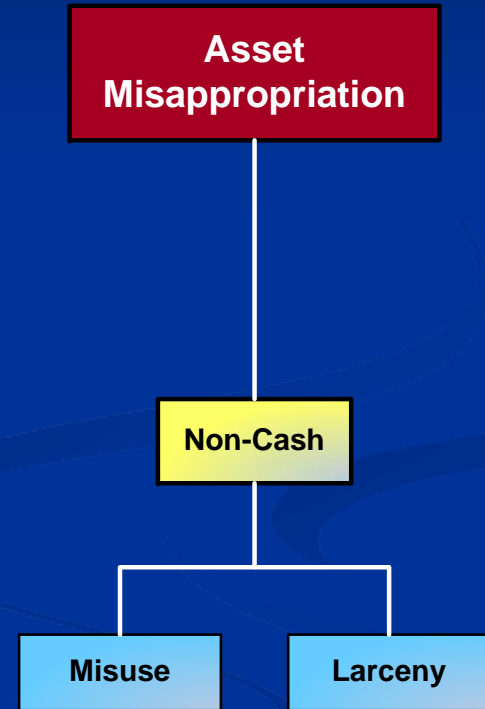
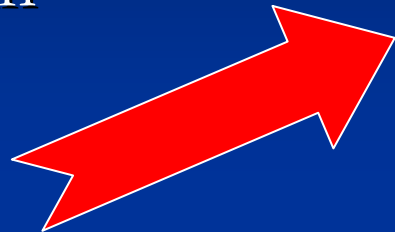


Source: Association of Certified Fraud Examiners, *2010 Report to the Nations on Occupational Fraud and Abuse*, page 7.



Anti-Fraud Program: Asset Misappropriation

- Ensure activities are in-place and effective to mitigate asset misappropriation:
 - Safeguarding City assets
 - Larceny (wrongful acquisition)
 - Misuse
 - Safeguarding personal and private information

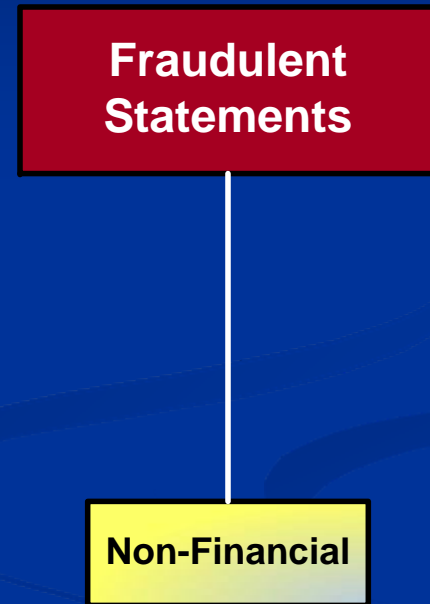
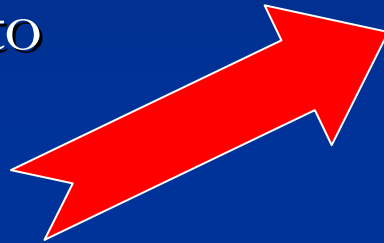




Anti-Fraud Program: Fraudulent Statements

- Ensure activities are in-place and effective to mitigate fraudulent statements:

- Grant Applications
 - Oversight & review
- Employee screening
 - Credential verification
 - Background checks
- Change Orders
 - Monitoring





Anti-Fraud Program Objectives

- Reduce the opportunity for fraudulent activity
- Assess and identify high-risk areas throughout the City where potential fraud may exist
- Update Anti-Fraud audit program as necessary to address identified risks on a continuous basis



Fraud Related Training

- Anti-Fraud team participation in fraud related training:
 - Mountain and Plains Intergovernmental Audit Forum - August 2010
 - Association of Certified Fraud Examiners (ACFE) webinar training
 - ACFE fraud self-study course
 - Institute of Internal Auditors webinar training
 - 2011 Colorado Business Economic Outlook



Anti-Fraud Program Presentations

- Auditors presented Anti-Fraud Program to the Mayor's Office on September 30, 2010
 - Presentation introduced the program to Mayor's staff
- Presentations on the horizon:
 - Denver City Council Finance Committee
 - Metro Mayors Caucus
 - Alliance of mayors of 39 cities and towns in the Denver metropolitan region



Contact With External Experts

- Auditors met and established relationships with subject matter experts and professionals in fraud related fields.
 - Chief Ethics & Compliance Officer of a Fortune 200 Company
 - Vice President of Corporate Security of a Fortune 200 Company
 - Ethics & Compliance Director of a Fortune 200 Company
 - FBI experts



Colorado Economic Outlook 2011

- Concerns for Government
 - Caseload demands for many state programs have increased
 - Available tax and fee revenue decreasing
 - Use of stimulus funding to cushion impact is limited
 - Lower and slower income growth
 - Growing income inequality

Source: Colorado Business Economic Outlook 2011, Business Research Division, University of Colorado



Fraud Risk Areas

- Cash Skimming & Cash Larceny
- Vendor Skimming
- Billing Schemes
- Expense Reimbursement Schemes
- Asset Misuse
- Collusion of Employee & Vendor
- Contract Procurement Fraud
- Revenue Reporting
- Ghost Employee
- Fuel Usage



Fraud Risks Identified Through Audit Work

- Agency A
 - Non-compliance with Fiscal Rules
 - Internal control weaknesses
 - Poor monitoring of accounting processes
 - Reconciliations not performed in a timely manner
- Agency B
 - Violation of Executive Order 8
 - Lack of contract monitoring
 - Non-verification of commission payments



Fraud Risks Identified Through Audit Work (con't.)

- Agency C
 - Minimal resources available to monitor large population of contractors and vendors
 - Agency depends on self-reported revenue reports from vendors and contractors
 - Contract terms and conditions
 - Certified annual financial statements
 - Missing vendor revenue records



Next Steps 2011

- Evaluate risk areas using the following methods:
 - Conduct data analysis through Computer Aided Audit Techniques (CAATs)
 - ACL
 - Detailed forensic review
 - Utilize revised ACFE Fraud Risk Assessment Tool
 - Identify and review sources of revenue and cash by city agency
 - Assess fraud risks identified from audits conducted by Audit Services and continually refine detection skills



Q & A

Contacts:

John Carlson, Deputy Director, JD, CIA, CICA

Heather Darlington, Supervisor, CPA

Marcus Garrett, Lead Auditor, CIA, CGAP

Rudy Lopez, Lead Auditor

Manijeh Taherynia, Senior Auditor, CPA, CFE, CICA