



ADVISOR

Internal Audit Advisory Services Newsletter

Issue 1

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Fraud Detection/Prevention

Welcome to the first edition of “ADVISOR.” You may be wondering why Internal Audit is publishing a newsletter. The goal of this newsletter is to provide you with information on good business practices, internal controls, compliance requirements and timely need-to-know information. Each issue will contain articles on a variety of topics geared toward increasing awareness and understanding of internal controls and compliance issues to assist management and staff in implementing and maintaining an efficient and effective work environment. The newsletter is also intended to increase awareness about the many services Internal Audit provides, with the hope that employees will use our services to ask questions and to strengthen internal controls in their work area. We hope you find this newsletter useful. - Cheryl Johannes, Internal Audit Manager

Fraud Detection and Prevention

Sustaining a culture of ethics and integrity continues to be a priority for organizations around the world. Executive management’s approach to ethics speaks volumes to the rest of the organization and can have a dramatic impact on the bottom line, both in terms of fraud prevention and how difficult it is to calculate reputational damage.

The Association of Certified Fraud Examiners (ACFE) defines fraud as any intentional act or omission designed to deceive others resulting in the victim suffering a loss and/or the perpetrator achieving a gain.

Asset misappropriation schemes are by far the most common type of occupational fraud reported to ACFE. Occupational fraud is more likely to be detected by a tip than by any other method; therefore, providing individuals a means to report suspicious activity should be a critical part of an anti-fraud program. Confirming incidents of fraud requires a thorough investigation of facts and circumstances. (*continued on page 2*)

Fraud Detection & Prevention (continued)

How Does Fraud Impact the City?

Fraud hurts everyone. Fraud is a common risk that should not be ignored. Failure to do so will eventually result in damaging morale, jeopardizing the reputation of the City and raise questions about its fiduciary duties regarding funds and resources.

Fraud Deterrence and Prevention

The key deterrent of fraud is **awareness and prevention**. Strong controls against fraud are the responsibility of everyone who works for the City. Fraud is often detected by employees in the normal course of performing their duties. There are some activities that may indicate the presence of fraud and raise a red flag. This may require follow-up. These activities **do not confirm the existence of fraud**.

All employees, including management, should:

- have a basic understanding of fraud and be aware of the red flags or warning signs.
- understand their roles within the internal control framework. Staff members should understand how their job procedures are designed to manage fraud risks and when noncompliance may create an opportunity for fraud to occur or go undetected.
- read and understand City Policies and Procedures.
- actively participate in the process of creating a strong internal control environment.
- attend internal control training opportunities.
- report suspicions or incidences of fraud.
- cooperate in investigations.

Indicators of Fraud

Although this list is not a complete list, the following conditions may be indicators of fraud:

- Accounts not reconciled and reviewed in a timely manner
- Unusual account transfers
- An employee wanting to control too much of a given process or procedure
- An employee refusing to take time off and/or unwilling to share duties with co-workers

- Collusion among employees over whom there is little or no supervision
- Unrecorded transactions or missing records
- Altered or counterfeit documents
- Personal purchases on the procurement card
- Lack of interest in compliance with policies
- Theft of inventory item
- Misappropriation of assets
- Unauthorized system changes
- Unapproved overtime
- Increased customer complaints
- Unexpected results, i.e., revenue decreasing and attendance increasing
- Inadequate screening of new employees
- Employee with a lifestyle beyond their means
- Employee in close relationship with suppliers

What is Internal Audit's Role in Preventing, Detecting and Investigating Fraud?

Internal Audit supports management's efforts to establish a culture that embraces ethics, honesty and integrity. We assist management with the evaluation of internal controls used to detect or mitigate fraud, evaluate the organization's assessment of fraud risk, and are involved in any fraud investigations.





Fraud Triangle

The fraud triangle is a concept that helps explain abuse in the workplace. The fraud triangle represents the presence of three conditions - pressure, opportunity and rationalization - often used by a "trust violator."

Trusted persons become trust violators when they see themselves as having a financial problem that is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to rationalize their own conduct.

Most employees do not enter the workplace with the intention of stealing. Most abuse can be best explained by the fraud triangle unless the particular person entered the workplace with the intent of stealing in the first place.

How Do I Report Fraud?

If you have reason to suspect fraud, any suspicious activity, misuse or misappropriation of the City's assets, please contact Internal Audit directly at 951-826-5688 or submit a complaint online via the 3-1-1 Call Center (click on Whistleblower in drop down menu).

Additional Resources:

City Admin policy 01.011.00 - Fraud Prevention, Reporting & Investigation

"How Fraud Hurts Government" at <http://www.acfe.com/vid.aspx?id=4294974598>

Requesting Internal Audit Services

The Internal Audit Division staff is committed to providing independent, objective assurance and consulting services designed to add value and improve the City's operations. This service helps City departments accomplish its goals and objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness and efficiency.

Internal Audit strives to work in partnership with the City Council, executive management and all employees of the City.

In addition to the various performance audits, and monitoring of certain activities (p-cards, grants, etc.), we are available to answer questions, give advice regarding specific policies and procedures, and act as consultants on internal controls.

To find out more, please visit <http://www.riversideca.gov/audit/> or contact one of the following:

Cheryl Johannes, Internal Audit Manager, at cjohannes@riversideca.gov or 951-826-5688
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