



Wouldn't you like to have one of these? A way to monitor your agency's performance. Current status on budget balance, purchasing and contract expenditures, computer system stability, personnel turnover, succession planning, program performance?

While you wait and hope for IT (information technology) to craft a real-time feedback system, the grains of sand keep dripping through the hourglass.

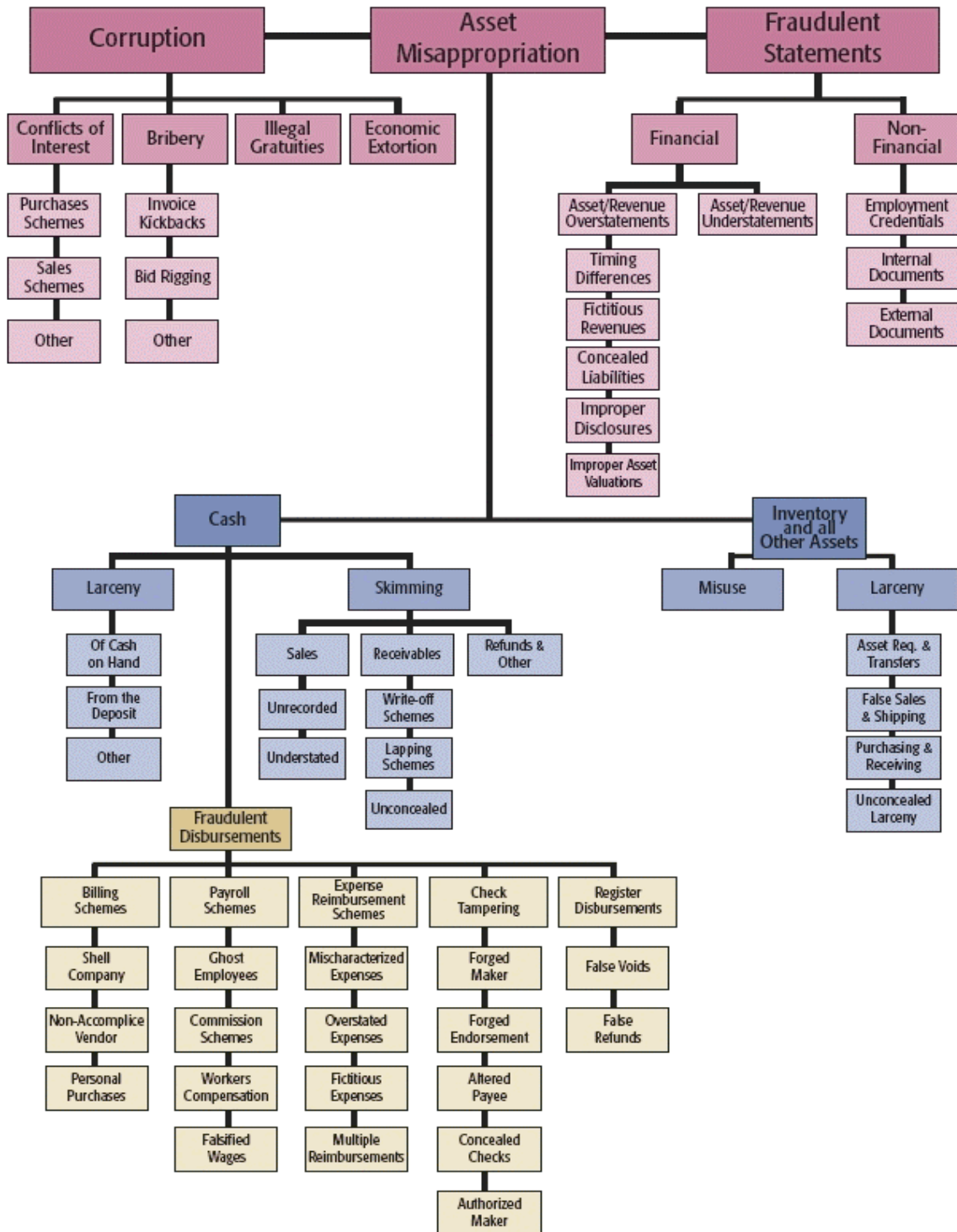
Have you considered gathering information the old-fashioned way – by talking to people? The annual Internal Control Review process can help you do just that! It's not a chore, it's a proven method to facilitate two-way communication, identify goals and objectives, and recognize the inherent risks and administrative weaknesses that interfere with achievement.



An integrated database would be ideal, though absorbing huge amounts of data out of context can be a daunting proposition. Instead, consider the merits of 5 X 7 index cards, or simple one-page forms covering all your critical functions. Who is in charge? How do you measure success or failure? What "Checkpoint Charlies" have you installed to track performance. Who are the gatekeepers for quality control? Who are the protectors of resources? What procedures have you built in to control the flow of money, data, supplies and materials? Where are the gaps in your armor where fraud or theft could occur?

The Association of Certified Fraud Examiners developed the following chart to capture all the possible ways staff, vendors, applicants, clients or grantees could take advantage of your resources, and compromise your integrity. While some of these apply only to commercial ventures (e.g., stock market manipulations), the majority can affect government and not-for-profit entities:

## *Uniform Occupational Fraud Classification System*



# ANATOMY OF FRAUD - Uniform Occupational Fraud Classification System<sup>1</sup>

## MAJOR CATEGORIES

### I. CORRUPTION

- **Conflicts of Interest**
  - Purchase Schemes (split vouchers to avoid competitive bidding)
  - Sales Schemes
  - Other
    - Favoritism and nepotism in hiring, purchasing or client services
    - Governance in-breeding
- **Bribery**
  - Invoice Kickbacks (vendor collusion)
  - Bid Rigging (phony bids or no bids)
  - Other (bogus inspections, licenses granted)
  - Political (votes promised, nominations & endorsements)
- **Illegal Gratuities**
  - Christmas Presents
  - Theatre Tickets (Broadway)
  - Free Travel & Lodging (conventions)
  - Expensive Dinners or Country Club Greens Fees
  - Free Product Samples (laptops or cocaine)
  - Gift to Favorite Charity
- **Economic Extortion (Political Extortion too?)**
  - “By me, or I’ll sue”
  - “I’ll tell them about the freebies”
  - “I have the negatives”

### II. ASSET MISAPPROPRIATION

- **Cash**
  - Larceny (outright theft or embezzlement)
  - Skimming (cash receipts, charitable donations – cash or goods)
  - Fraudulent Disbursements
    - Billing Schemes (shell company, personal purchases, collusion, fictitious goods)
    - Payroll Schemes (no-shows, phony overtime, attendance abuse, workers comp)
    - Expense Reimbursement Schemes (multiple and/or padded travel vouchers)
    - Check Tampering (altered payee, diverted checks, forgeries)
    - Cash Register Disbursements (false refunds, false voids)
    - Company Credit Card (personal use)
- **Inventory and Other Assets**
  - Misuse
    - Cell Phones, Gasoline, Vehicles, Computers, Copiers, Long Distance
  - Larceny
    - Asset Requisition & Transfer

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<sup>1</sup> **Source:** Association of Certified Fraud Examiners  
**2004 Report To The Nation On Occupational Fraud And Abuse.**

- False Sales & Shipping
- Purchasing & Receiving
- Unconcealed Larceny

### III. FRAUDULENT STATEMENTS

- **Financial**
  - Asset/Revenue Overstatements
    - Timing Differences (fiscal year roll-overs, delayed payments)
    - Fictitious Revenues (inflated sales figures, bogus bonuses)
    - Concealed Liabilities (stockholders will never know)
    - Improper Disclosures (insider trading, trade secrets)
    - Improper Asset Valuations (conceal company's true value)
  - Asset/Revenue Understatements
    - Tax Avoidance
    - Deflate Sales Staff Commissions (favoritism/revenge)
- **Non-Financial**
  - Employment Credentials (often unverified, liars win)
    - Diploma Mill PhD's
    - Forged Licenses or Degrees
    - Fake Identification (criminals / illegal aliens)
    - Concealed criminal history
    - Padded Resumes, bogus references
  - Internal Documents (employee evaluations, vendor ratings, applicant vetting)
  - External Documents (IPO filings, puffed-up press releases, misrepresentations)

### DETECTING FRAUD

The ACFE has recognized that “internal controls” come in fourth place when it comes to detecting fraud. Experience from 2002 to 2004 shows this has improved somewhat, but government and industry still have a ways to go, implementing appropriate and affordable controls to minimize risk. Within government agencies, internal controls detected less than 12% of all frauds during the survey period.

