



Fraud Risk Health Check

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Presentation Agenda

Why are we here?

To communicate:

- Why fraud/misconduct is an issue for Aboriginal organizations
- What fraud is and common types of fraud for Aboriginal organizations
- What you need to know about managing fraud risk
- What to do when you suspect a problem

Understanding the Challenge



“I don’t appreciate you questioning my integrity. Especially since I’ve skipped town and can’t be there to defend it.”

Fraud in Perspective

- MNP has, typically, five ongoing fraud or misconduct investigations with Aboriginal organizations at any given time
- Fraud schemes, on average across all industries, go on for almost two years at a time with median losses greater than \$130K
- Fraud significantly reduces your ability to provide efficient and effective services to the people who need it most
- Fraud controls have a measurable impact on reducing investigations and losses

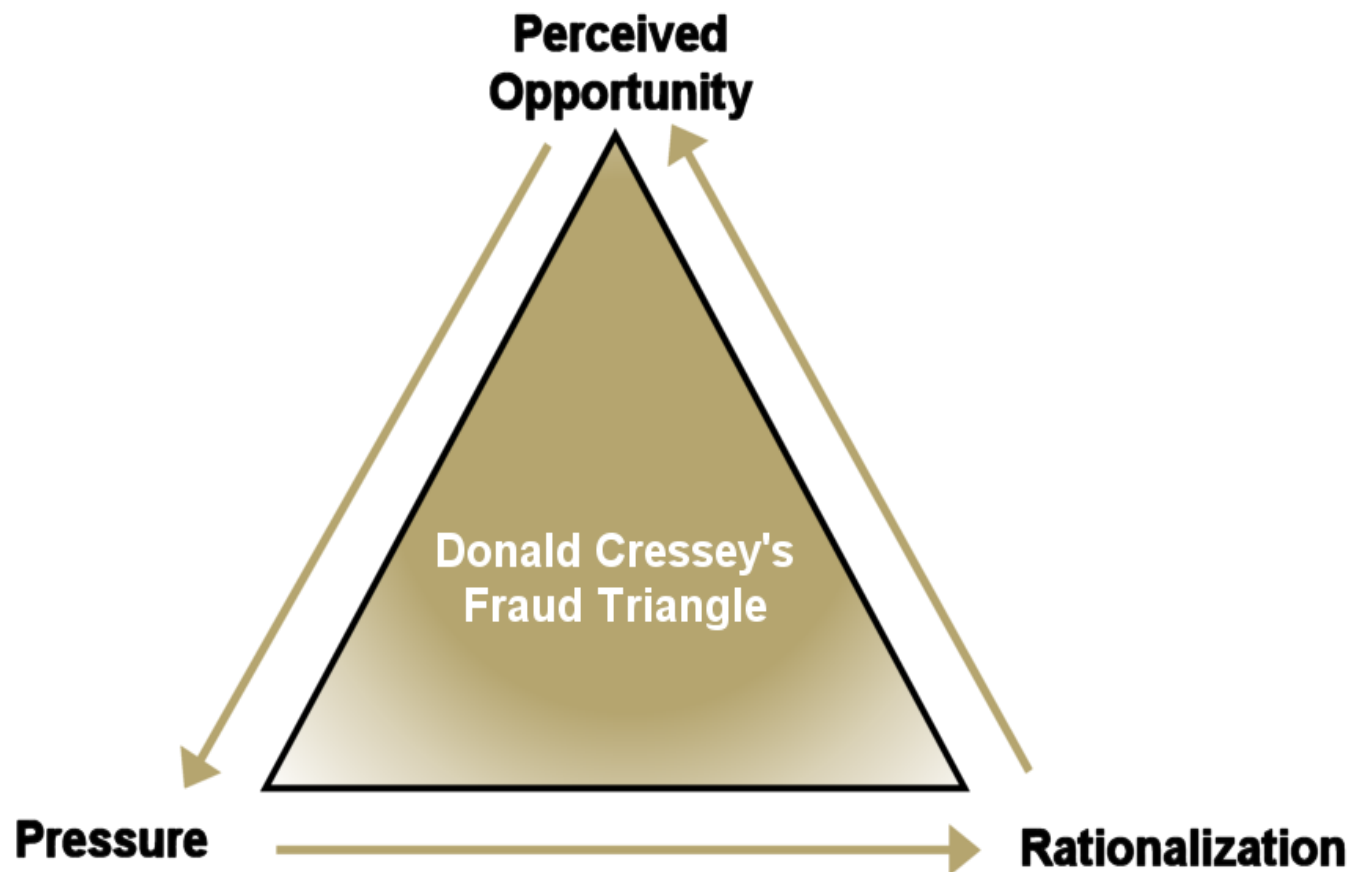
What is Fraud and Misconduct?

- **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.
- **Theft** is the illegal taking of another person's property without the person's freely given consent.
- **Fraud** and **Theft** are not the same thing.
- **Misconduct** is any act contrary to the best interests of the organization.

Fraud Theory

- 20 / 20 / 60 Rule
- 20% will **always** steal from you
- 20% will **never** steal from you
- 60% apply ‘**situational ethics**’

Fraud Theory



Who Commits Fraud, Why?

The prime suspects are those with opportunity:

Anyone with access to funds or assets – don't think that just because you don't deal with cash that you cannot be defrauded

Often a long term, trusted employee

- Lack of oversight
- Ability and knowledge to take advantages of control weaknesses
- Don't always act alone (“everyone is doing it”)

Fraud Risk

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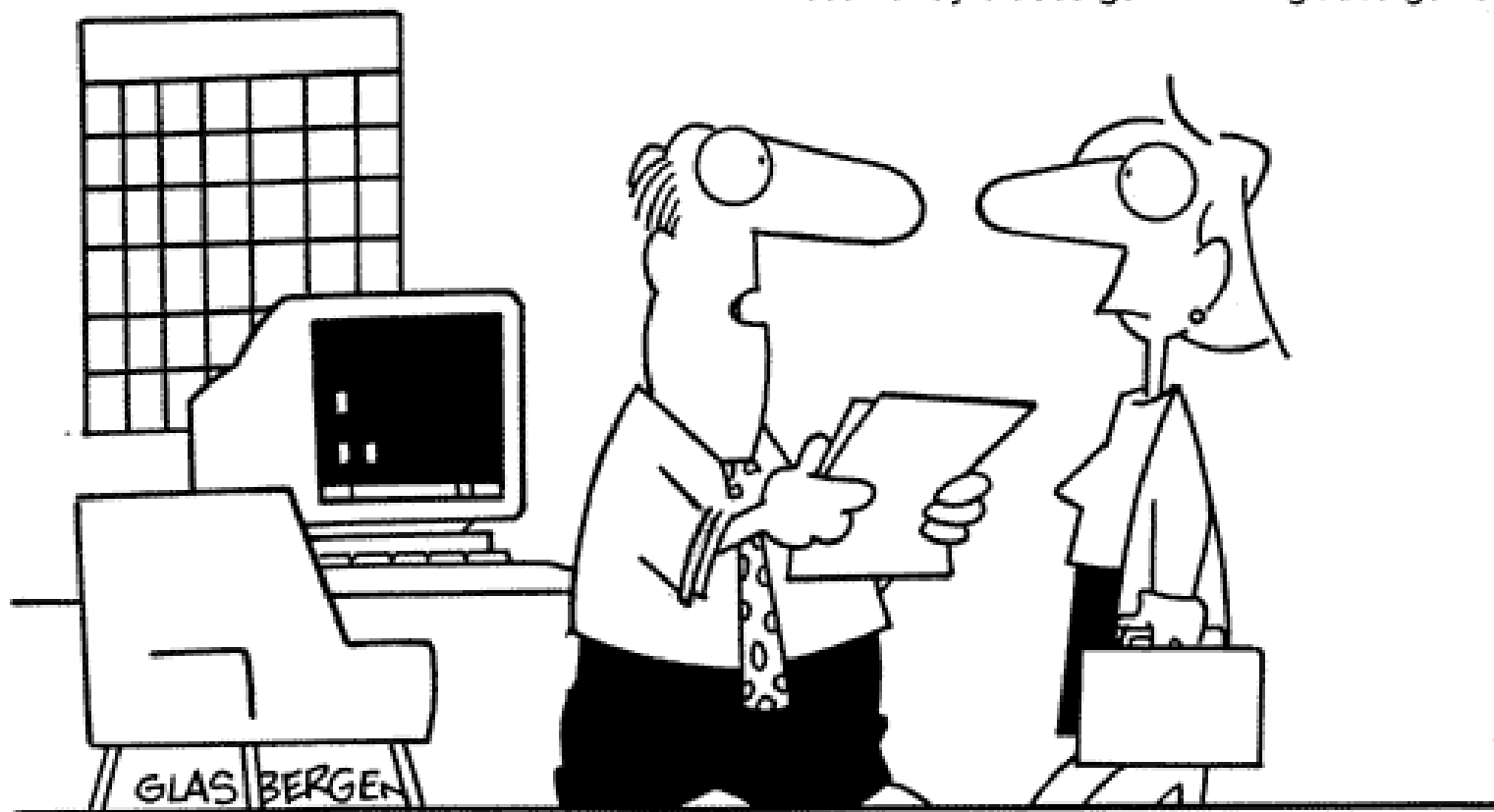


“We’ve always encouraged our staff to learn by trial and error. Many of our top people have even been convicted.”

Cheque Fraud

Misuse of Nation Cheques and Accounts:

- Extra pay cheques or advances
- Cheques to family/friends
- Transfers to personal accounts



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

Travel expenses, honoraria, and per diems

- Increased amount of travel for extended periods or further destinations
 - Actually required to perform duties?
- Receiving payments when not in attendance
- Unapproved or unsupported travel expenses
- Payments which come out of multiple accounts

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**“We need to draw the line on unethical behavior.
But let’s draw it with an Etch-a-Sketch and
don’t be afraid to shake it a little.”**

New accounts or corporations

- New accounts opened without knowledge of management/board
- Accounts opened in the name of an individual instead of the band/organization
- Bank statements/corporate documents addressed to individual home addresses instead of business address
- Misuse of accounts where no reconciliation – ie bingo accounts, gaming accounts



"I took a course in ethics, but everything was contradicted by the course I took in *accounting*."

Misuse of funds

- Personal expenses
- Funds diverted to related companies/individuals
- Payroll fraud
- Misuse of social payments
- Unapproved expenses
- Misconduct hidden through poor financial statements/record keeping
- Grants used for purposes not approved

Red Flags

There are a number of red flags you should be aware of:

- Are you getting the answers for the questions you have asked?
- Are you getting pushback from your employee when you ask for information?
- Are you aware of all your bank accounts and financial statements?
- Who has signing authority? Who has a corporate credit card?
- Have you checked what corporations have been registered and who controls those corporations?
- Have you reviewed capital projects and expenditures?
- Have other Councillors and employees identified conflicts of interest?

Red Flags — (know your employee)

Employees who:

- Never take holidays or only take a few days at a time.
- Complain of personal financial difficulties
- Appear to have a close relationship with the company's supplier or customer
- Seem disgruntled or resentful
- Appear to be living beyond their means
- Come in early and/or work late
- Operate a business in addition to their employment with the company
- Do not allow others to assist them with their work load
- Appear to have a lot of control over operations

What should you do?

- Understand bank accounts and the purpose of the accounts
- Understand bank reconciliations
- Know what you are signing – fiduciary responsibility

What should you do? (cont'd)

- Understand corporations
 - What are they for?
 - What is your funding for?
 - Fund accounting
- Ask questions of management and those responsible for finances
- Whistleblower hotlines – Tips are the most common detection method

Summary

- Fraud is committed by those with opportunity
- Risk is prevalent around access points to funds
 - Need to know who has access to bank accounts, cheques, credit cards, payroll records
- Need to understand bank accounts and bank reconciliations
- Need regular review of financial information (bank accounts and financial reports)
- If something seems off – Ask Questions!

Thank you!



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