

CFE UPDATE
May-June 2000

Chapter Fraud Seminar Training and Meeting Dates

Future fraud training events for the remainder of the year 2000 are as follows:

June 28 – Chapter Annual Business Luncheon Meeting, Best Western Southcenter, Tukwila.

July 30-Aug 4 – Association of CFE's 11th Annual Fraud Conference, Marriott Marquis Hotel, New York City, NY.

August 30 - Chapter Fraud Seminar, Key Towers Building 28th Floor Conference Room, Seattle.

November 2-3 - Joint Association of CFE's and Chapter 2-Day Fraud Conference, Hilton Hotel, SeaTac.

December 12 - Joint Chapter and WSCPA Fraud Conference, Marriott Hotel, SeaTac.

Be sure to mark these important dates on your training schedule and plan to attend.

Chapter and Association Scholarship Programs

The Association of CFE's 2000-2001 Ritchie-Jennings Memorial Scholarship Program winners will be announced by June 30, 2000, and awarded by August 11, 2000. Fifteen scholarships worth \$1,000 each will be awarded this year. There will also be one \$500 scholarship awarded by the Chapter. The Chapter sponsored one applicant for the national scholarship program. A brief biography follows:

Nikki L. Cantrell is a Junior at Seattle University, and will graduate in June 2001 with a degree in accounting. She has achieved a 3.81 cumulative grade point average on a 4.0 grading scale, and has maintained a standing on the Dean's List every quarter during her college career. She works 28 hours a week as an audit intern for the Washington State Auditor's Office and as a personal banker and teller for the Bank of America. She also carries a full-time class load at Seattle University, and still finds time to participate in extra-curricular professional endeavors and tutor other accounting students. Nikki is a member of the Alber's School of Business Dean Advisory Committee, a member of Beta Alpha Psi, and a member of Alpha Sigma Nu.

The Chapter wishes Nikki great success in the tough competition for a national scholarship. However, if not selected for an Association scholarship, Nikki will automatically receive the Chapter's scholarship.

Thanks to President Norm Gierlasinski, Chairman of the Scholarship Committee, for his hard work in making the Chapter Scholarship Program a huge success.

Eleventh Annual Association Fraud Conference

The time for the annual fraud conference is rapidly approaching. We hope you've registered for this premier fraud training event and are making plans to attend. If not, now is the time to do this. "The White Paper" magazine has all of the particulars about this year's expanded learning opportunity at the Marriott Marquis Hotel in New York City, New York from July 31-August 2, 2000. The format the 2000 conference will be similar to last year. There is a pre-conference session on Sunday, July 30th. The main conference is Monday through Wednesday, July 31st-August 2nd, accompanied by a trade show hall with approximately 50 exhibitors. There is also a post-conference on Thursday and Friday, August 3rd-4th, with tracks for both auditors and investigators. The conference represents an opportunity for participants to receive up to 44 hours of continuing professional education credits.

Vice-President Joe Dervaes, as a member of the Association's Board of Regents, will be a part of the Introduction and Welcoming Session and will make some brief opening remarks about his view of fraud in the future. He will also be attending the semi-annual meeting of the Board of Regents held in conjunction with the annual fraud conference.

The Chapter is still looking for someone to represent us at the Chapter Meeting to be held on Sunday in conjunction with the conference. Anyone attending the conference and interested in participating in this worthwhile event is encouraged to contact Joe Dervaes at (360) 902-0368.

New Chapter Web Page

After several years in the making, the Association has advised us that a Web Page is now available for all Chapters. There are several formats available, and each Chapter will be able to choose the one that best meets their needs. The Chapter expects to establish its Web Page soon, and will publish our bi-monthly Chapter Newsletter in that forum. This will result in a significant savings each year for printing and mailing the newsletter. The Board of Officers would like to reduce our costs in this area if at all possible. So, we're looking forward to moving to this new forum for future Chapter operations.

That's the good news. The bad news is that receipt of the Chapter Newsletter through the mails in printed form is going to be a thing of the past. A special thanks goes to Joe Dervaes and Gial Rogers for producing the Chapter Newsletter since 1993. Stay tuned for more details on this exciting development in the life and times of the Chapter.

Board of Officers Meeting

Your Board of Officers will be holding its semi-annual business meeting on June 28, 2000, just prior to the Chapter's annual business meeting and luncheon. We'll be considering a number of critical actions affecting future Chapter operations. Among other topics, the Board of Officers will be considering the following:

- Establishing a Chapter Web Page in conjunction with the Association of CFE's.
- Selecting a Distinguished Achievement Award winner for 2000.
- Working on Chapter training events scheduled for the remainder of 2000.
- Revising our Chapter organizational structure. At last year's business meeting, we decided the Chapter should be an IRS Section 501(c)(6) professional trade association as recommended by the Association of CFE's. But, because of IRS dissolution requirements, all Chapter funds of the Chapter would have to be transferred to another IRS Section 501(c)(3) non-profit corporation to change the organization form as originally decided. Not desiring to give up our hard-earned treasury funds, we plan to establish a new IRS Section 501(c)(6) organization and operate with two organizations in the future. One organization will handle chapter operations, and the other will handle the scholarship program.
- Election of the Board of Officers. No changes in Board membership are anticipated this year.

Annual Board of Officers Elections

If you are a Chapter member, an annual ballot for Board of Officer elections is enclosed with this Newsletter. Please either mail your ballot to the Chapter by June 28, 2000, or cast your ballot at the annual business meeting. Please remember to sign your ballot to validate your vote for the leadership of our Chapter. If you are not a Chapter member, the slate for the Board of Officers is made up of our current leadership. They are as follows:

- President: Norman J. Gierlasinski, CFE, CPA, CIA.
- Vice-President: Joseph R. Dervaes, CFE, CIA.
- Secretary/Treasurer: Roger B. Gulliver, CFE, CPA, CISA.
- Director-At-Large: Gail G. Rogers, CFE, CIA.
- Director-At-Large: Robert L. Fuhrman, CFE, CPA.

Special thanks go to our leaders for serving the Chapter members as members of the Board of Officers. Your dedication and hard work are sincerely appreciated.

Money Laundering Is On The Increase

By: Joseph R. Dervaes, CFE, CIA
Director of Special Investigations,
Washington State Auditor's Office

As Chapter Vice President, I have been discussing “Money Laundering Activities” in a number of prior articles in the Chapter Newsletter. Money laundering in the private sector involves washing illegal funds through legitimate businesses so that it can be legally used for other purposes. However, I’m talking about employees who steal revenue checks from the organization and then use a wide variety of mechanisms to receive the proceeds from this criminal act.

One method used is to launder these stolen checks through the organization’s daily deposit in a check for cash substitution scheme. Conversion to cash is then immediate.

Most other methods involve the use of a wide variety of bank accounts both inside and outside the organization. The perpetrator first deposits the stolen checks into these bank accounts and then writes checks on the accounts to get the money out for personal benefit. These individuals issue checks to themselves, to “cash”, or to vendors to pay their own bills. It’s that simple. As strange as it might sound, two of the most common accounts used include the perpetrator’s personal bank or credit union account and an “off-book” or unauthorized bank account established in the name of the organization.

These thefts are not detected, or not detected promptly, because management does not properly segregate the duties of key employees. “Blind Trust” is the issue, where management trusts a key employee to a fault. As a result, this employee’s work is not properly monitored. Finally, the employee, the custodian of the bank account, is allowed to perform the bank reconciliation without review. These internal control weaknesses spell disaster. Please pay attention to these “red flags”, because this type of theft is on the increase everywhere. And, remember, more people steal checks than currency these days. Most of us do not want to believe this because we have faith in the bank endorsements on checks. We think that checks with our organization’s name on the payee line must be deposited into the authorized bank account of the organization. But, it’s just not so. The most common problem noted is that the check endorsements are improper, but sufficient enough to get through the banking system unnoticed.

Things to remember are:

- Ensure there is a proper segregation of duties for key employees.
- Immediately “capture” accountability for all revenue transactions that enter the organization by recording the transactions on cash registers or in manual or computer cash receipting systems.
- For checks that arrive through the mail, the ideal situation is to have two people open the mail, make a list of the checks, and then reconcile this list to the cash receipts and bank deposit. Where this is not possible, make sure that the organization proactively selects the compensating control for this critical function rather than proceeding without knowing what is happening.

- Restrictively endorse all checks “For Deposit Only” immediately upon receipt.
- Ensure an independent party reconciles the bank statement promptly and receives the bank statement directly from the bank.

With permission from the Oregon CFE Chapter, it’s a pleasure to re-print the following article from the May/June 2000 Oregon Chapter Newsletter. Does this sound familiar to the message above?

Fraud News From The Oregon CFE Chapter

Can Acronyms Be A Problem
By David Marosi, CFE

A few weeks ago a police department in the Puget Sound area recommended a business owner contact me about a suspected theft of funds. The police department did not have the resources or time to assist the business. The problem was interesting, and was resolved much more rapidly than expected.

The victim business operated four stores in the Puget Sound area. The day before the owner of the business called, she received information from the police department that they had received anonymous information that the accounts receivable clerk had stolen \$200,000 over the past 18 months. The suspect was a trusted employee and a persona friend of the owner. The owner had not observed any unusual behavior, or unfavorable variances in inventory or revenues. The owner was completely stunned and did not know what to do. In several telephone conversations, fellow chapter member, Kathy Murphy and I, learned the following information:

The employee did not have check writing authority. She posted payments received, but did not open the mail. On most occasions, the business owner made all the bank deposits. However, two or three times per month this employee made the bank deposit when the owner was not available.

The trusted employee had worked for the organization for eight years. She was recently separated from her husband and had moved into her own apartment. She did not drive a new model vehicle to work and did not display any indication she was living beyond her means. She had been dating the purchasing agent of one of the company’s larger customers for several months. Investigation revealed the employee had not purchased any real estate, vehicles or other assets in the previous two years. She, and her current boyfriend, did not have any know business interests.

When asked about the company’s receivables, the owner stated receivables had become a problem but she had not had time to pursue collections efforts. Upon further inquiry, we learned the receivables had grown disproportionately over the past year.

Kathy Murphy and I surmised if the anonymous information was true, there were only two or three schemes the suspect could have utilized to gain access to company funds. She was either kiting the accounts receivable payments and depositing the stolen checks into a fictitious account, she was altering the checks, or the boyfriend was involved in the scheme.

When confronted that afternoon, the suspect confessed to the theft of \$180,000. Most checks written to the company were made payable to the acronym rather than the company name. The employee had not altered any of the checks. She merely had deposited all the stolen checks into another checking account that she had opened, in her name, and no one ever questioned her. Simple and effective.

BIOGRAPHY

David W. Waterbury, Senior Counsel, Office of Attorney General, Criminal Justice Division, Medicaid Fraud Control Unit.

Mr. Waterbury is Senior Counsel in the Washington State Office of Attorney General and the Director of Washington State's Medicaid Fraud Unit.

In this capacity, he has investigated and prosecuted over a hundred Medicaid Fraud cases in both state and federal court. He has served as the appointed head of the fraud unit since 1982. Prior to this appointment, he was a deputy prosecuting attorney handling complex fraud cases, murders, and public corruption.

He is active in the National Association of Medicaid Fraud Control Units and has served that Association as both president and chair of its legislative committee. Mr. Waterbury has served as a speaker for a diverse group of those interested in health care fraud to include: The American Bar Association, National Health Lawyers Association, National Health Care Anti-Fraud Association, Federal Bureau of Investigations, and many state and local investigator and prosecutor groups.

SEMINAR DESCRIPTION

As a distinguished attorney and representative of the Medicaid Fraud community and the Attorney General's Office of the State of Washington, David Waterbury will address the Chapter on his favorite topic – Medicaid Fraud. No surprise there. It's his specialty, and that's what the Chapter Board of Officers asked him to do. Mr. Waterbury will discuss the role his office plays in conducting investigations and prosecutions of providers who commit Medicaid Fraud in this state. Find out how big a problem we're facing, and how it affect you.

PACIFIC NORTHWEST CHAPTER
ASSOCIATION OF CERTIFIED FRAUD EXAMINERS
2000 ANNUAL BALLOT

Nominating Committee Report.

According to the Chapter By-Laws, the Nominating Committee consists of three chapter members appointed by the President and headed by the Vice-President. The following chapter members served on this committee this year: Joseph R. Dervaes, CFE, CIA; Morgan D. Jacobson, CFE/CISA; and, Clifford C. Whipple, CFE.

The Nominating Committee has presented a list of all chapter members desiring to run for office below. Chapter members may also write-in the name of any other chapter member, with their concurrence, for any office listed.

Please vote for only one individual for each office of the Chapter Board of Directors. After voting, please complete the information below, sign the form, and either:

(a) Mail this ballot to the chapter at P. O. Box 215, Auburn, WA 98071-0215, in time for it to be received before June 28, 2000; or,

(b) Bring this ballot to the annual chapter luncheon business meeting on June 28, 2000. The meeting will be held at the Best Western Southcenter in Tukwila, WA.

Unsigned ballots will not be counted by the Election Committee. Results of this election will be announced at the annual luncheon business meeting.

NAME: _____

SIGNATURE: _____

DATE: _____

BALLOT – PACIFIC NORTHWEST CHAPTER/ACFE

Term: August 1, 2000 – July 31, 2001

PRESIDENT

NORMAN J. GIERLASINSKI, CFE, CPA, CIA. Dr. Gierlasinski is the current Chapter President. He is a faculty member of Central Washington University-SeaTac Center in Tukwila, and owns and operates Gierlasinski and Associates, a private consulting firm.

VICE-PRESIDENT

JOSEPH R. DERVAES, CFE, CIA. Joe is the current Chapter Vice-President. He is a member of the Board of Regents and a faculty member of the Association of CFE's. He is the Director of Special Investigations for the Washington State Auditor's Office in Olympia.

SECRETARY/TREASURER

ROGER B. GULLIVER, CFE, CPA, CISA, CBA. Roger is the current Chapter Treasurer. He owns and operates a private firm, Roger B. Gulliver, CPA in Auburn.

DIRECTOR-AT-LARGE

GAIL G. ROGERS, CFE, CIA. Gail is a current Chapter Director-At-Large. She owns and operates a private firm, Rogers Business Examination Services in Tacoma.

DIRECTOR-AT-LARGE

_____ ROBERT L. FUHRIMAN, CFE, CPA. Bob is a current Chapter Director-At-Large. He performs special investigations and is employed by PriceWaterhouseCoopers in Seattle.
