

CFE UPDATE
March-April 2000

Joint CFE/IIA Fraud Seminar

We're pleased to announce that the joint fraud seminar presentation by the Pacific Northwest Chapter/ACFE and the Puget Sound Chapter/IIA was a huge success. So, we'll probably do this again next year. The luncheon meeting was held on March 8, 2000, at the Washington Athletic Club in downtown Seattle. The food was excellent.

Chapter Vice-President Joe Dervaes was the featured speaker. Joe used a one-hour Association video entitled: "Beyond the Numbers – Professional Interview Techniques" to begin the session. The video covered interviews conducted in two cases. The first case involved a loss of merchandise from inventory in a warehouse where perpetual records did not agree with physical records (shortage/shrinkage). The second case involved fictitious customer refunds at a retail store. The video dealt with the five types of questions asked during routine interviews. These questions are: introductory, informational, closing, assessment, and admission seeking.

The video was followed by a one-hour presentation of case law bearing on interviews conducted by auditors, and a brief overview of how this is dealt with in interviews Joe conducts in the Washington State Auditor's Office. Miranda and Weingarten Warnings were discussed.

Joe's presentation was well received and lively to say the least. There was a multitude of questions from the audience throughout the session. And, it was nice to see Joe weave those questions and answers into his presentation as he covered the material selected for the day. The seminar could easily have gone longer due to the high level of audience participation.

The Puget Sound Chapter/IIA announced that the attendance at this meeting was the largest ever in their history. There were approximately 120 internal auditors and CFE's in attendance. And, our Chapter was well represented at the seminar.

Congratulations Joe for a wonderful presentation. You represented the Washington State Auditor's Office, the Pacific Northwest Chapter/ACFE, and the Association's Board of Regents very well at this fraud seminar. Several individuals approached Chapter members after the meeting to inquire about joining us for future fraud seminars. And, that's great news too.

The bottom line: A good time was had by all. Good fraud Continuing Professional Education training is hard to get, and this certainly was an excellent opportunity. If you missed this event, come join us at a future Chapter meeting. You'll be glad you did.

News About Chapter Members

Chapter Director-At-Large Gail Rogers, CFE/CIA received the Association's Distinguished Achievement Award for 1999. Chapter Vice-President and Member of the Association's Board of Regents, Joe Dervaes, made the presentation of this award at the joint CFE/CIA fraud seminar on March 8, 2000. The Chapter is able to make one such award annually, and we have had an award recipient each year since the program was begun in 1995.

Gail has been a member of the Board of Officers since the Chapter began operations in 1993. She is responsible for publishing the Chapter Newsletter and Chapter Directory, and maintains the Chapter Reference Library. In addition, she has assisted with registration and administration duties for the joint Association and Chapter 2-Day Fraud Conference each year. This award recognizes Gail's leadership in Chapter operations and for the many hours of service she has volunteered to ensure that affordable fraud training is available to the membership each year. She is a respected professional in the fraud community in the Pacific Northwest. The Chapter would not be able to function as we do without her dedication to these important Chapter functions. Thanks a million Gail!

Prior Distinguished Achievement Award winners for our Chapter have been Joe Dervaes, Norm Gierlasinski, Bob Fuhriman, and Dan Hutcherson. All have been recognized for their leadership roles as members of our Chapter Board of Officers.

Congratulations to all for a job well done. You have represented your employers and the Chapter in an exceptional manner. Keep up the good work!

Chapter Fraud Seminar Training and Meeting Dates

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

April 26 - Chapter Fraud Seminar, Key Towers Building 28th Floor Conference Room, Seattle.

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

Nominations for the Association of CFE's 2000-2001 Ritchie-Jennings Memorial Scholarship Program were due at the Chapter not later than March 31, 2000. As of that date, we had only one application on file. The candidate is an excellent candidate for both the Association and Chapter scholarships. The Chapter Board of Officers will review all applications received and then forward appropriate letters of recommendation to the Association to arrive by the May 12, 2000, deadline for the national competition.

Fifteen scholarships worth \$1,000 each will be awarded this year based upon academic achievement, letters of recommendation, and an original essay explaining why the applicant deserves the scholarship and how the awareness of fraud will affect his or her professional career development. Applicants must be full-time undergraduate or graduate students who are declared accounting or criminal justice majors. There will also be one \$500 scholarship awarded by the Chapter.

Both Chapter and Association scholarship awards will be announced by June 30, 2000, and awarded by August 11, 2000. Best wishes for success to all applicants, especially those representing the Pacific Northwest.

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 there will soon be a Web Page available for all Chapters. There are apparently several formats available, and each Chapter will be able to choose the one that best meets their needs. As soon as this option becomes available, our Chapter expects to establish its Web Page. We will then 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.

And, this change will also save a lot of volunteer time for the folks who have made your Chapter Newsletter a reality since 1993. A special thanks goes to Joe Dervaes and Gail Rogers for their labor of love in this important part of Chapter operations. Tell them thanks the next time you see them, because a lot of hard work goes into delivering this document to you every year. The Board of Officers knows they would appreciate your kind remarks very much.

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. Stay tuned for more details on this exciting development in the life and times of the Chapter.

Fraud Tips Article

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

DESTRUCTION OF ORIGINAL SOURCE DOCUMENTS

I've received a number of inquiries recently concerning public entities that destroy original source documents after receipt. Each case has involved utility billing stubs in cities; however, this condition could also occur in the cash receipting function of any state or local government. While these examples apply to the public sector, I'm sure there are also applications in the private sector. So, please read this article with that scenario in mind. Think about where this could apply in your organization, or in your client's organization, and then deal with the issues accordingly. Recent cases have been as follows:

- (a) Case number one. Customers used bank "PAY-ON-LINE" services to make their utility payments to a city using a personal computer at their home. Customers using this bank service are able to pay all their bills in this manner. After notification of the transaction, the bank deducts the payment amount from the customer's bank account. PAY-ON-LINE then sends a remittance advice to the city along with the individual customer checks created using this on-line banking service. The remittance advice includes the detail of each transaction, such as the customer's name, address, account number, amount, and any other descriptive information needed to process the transaction.

(b) Case Number Two. Customers used a service company to make their utility payments to the city. The service company then sends a remittance advice to the city along with a single check for the total amount due for all customers listed on the document. The remittance advice includes the same type of detail as indicated in case number one above.

In both of these cases, utility billing stubs were mailed to customers notifying them of the amount due to the city; however, they were never returned. Thus, the remittance advice becomes the original source document for these cash receipt transactions. It indicates the total amount paid to the city by each customer as well as the mode of payment of the transaction. **In both of these cases, the city prepared manual utility billing stubs for each customer and then destroyed the remittance advice for the transactions.** Preparing manual utility billing stubs can be a redundant and unnecessary step. But, if the city wishes to prepare this duplicate document, they must also retain the remittance advice on file with the batch of utility billing stubs supporting the daily bank deposit.

Both of the above types of payments were recently encountered in an accounts receivable operation at a school district day care program. This included individual customer payments like case number one above, and collection agency payments similar to case number two above. In the future, we're going to be seeing more and more of this type transaction throughout government as the general public becomes more computer literate.

(c) Case number three. Customers made utility payments at another city in two ways. When customers made payments over-the-counter, the city prepared an official, prenumbered receipt to record the payment and then **destroyed the utility billing stub**. When customers made payments through the mail or by using a drop box, the city prepared a log listing the payments and **destroyed the utility billing stubs**. The payment log listed the date, customer's name, account number, and mode of payment of the transactions. At the end of the day, all over-the-counter payments were also recorded on the payment log. The log was then used to balance to total cash receipts on-hand, prepare the daily bank deposit, and post the customer's accounts "paid".

In this case, destroying the utility billing stubs is an unnecessary step, while preparing the payment log is a redundant step. But, if the city wishes to prepare this duplicate document, they must retain the batch of utility billing stubs on file to support both the daily bank deposit and the customer account posting report. As a reminder, **the payment log in this case is a "summary level" document** which provides little or no value in determining the completeness of cash receipts.

After issuing this article to municipal treasurers through North America, a city treasurer on the East Coast called me to discuss the above situation. He told me that all utility billing stubs were routinely destroyed as soon as the computer payment listing was produced. Thus, he only retained the summary level document to support cash receipts and bank deposits. He was having difficulty understanding why his independent auditing firm maintained the same position about these records that I did in this article. After

discussing the audit risk discussed below, he soon realized that destroying the utility billing stubs, the original source documents, was not a good public policy. It's nice to know that operations can be changed for the better, even in far away places, from the publication of these articles. And, it's easy to understand that others have the same types of problems we do here in the State of Washington. So, we're not alone.

Audit Risk. Destruction of original source documents (i.e.; remittance advices and billing stubs) is definitely a “red flag”. You can easily see that a utility accounts receivable clerk or cashier could disregard the original information received and **record payments for any customer they choose within the system.** Destroying the remittance advices and utility billing stubs would conceal this action and blur the audit trail. Therefore, there is a risk for fraud. Fraudsters could easily perpetrate a lapping scheme under these circumstances.

Some tips to help you identify the destruction of public records follow.

Review batches of utility billing stubs for manually prepared documents. From a discussion with entity staff, determine why this step was necessary.

Inquire of entity staff about sources of customer payments and methods of payment currently in use. If PAY-ON-LINE bank services, payment service providers, and collection agencies are used, there should be remittance advices present for these payments. Search for them during cash receipts testing.

Rely on your experience and knowledge of similar entities to identify missing source documents. You must be inquisitive. Determine why documents that should be present have not been found within the entity.

I hope you find this information useful in your work.

SEMINAR DESCRIPTION

OTHER PEOPLE'S MONEY – THE BASICS OF ASSET MISAPPROPRIATION

The first hour of this fraud seminar involves an Association of Certified Fraud Examiners video presentation. The video covers a typical employee embezzlement case. A CPA performed all of the financial duties for a non-profit organization (school). He issued checks made payable to himself and to two shell companies over a five year period. The organization lost approximately \$400,000, and the CPA received a sentence of 41 months in jail. The sad, but often true situation is that this individual became a repeat offender when he took a job with another firm and began doing exactly the same thing all over again.

The second hour of this fraud seminar involves an opportunity for you to interact one-on-one with your Chapter Board of Officers about employee embezzlement. Bring your questions and answers and discuss this exciting topic with some or all of the following:

Dr. Norman J. Gierlasinski, CFE, CPA, CIA, Professor of Accounting, SeaTac Center of Central Washington University, Tukwila. Norm is the Chapter President.

Joseph R. Dervaes, CFE, CIA, Director of Special Investigations, Washington State Auditor's Office, Olympia. Joe is the Chapter Vice-President and a member of the Association's Board of Regents.

Roger B. Gulliver, CFE, CPA, CISA, Sole Proprietor, Roger B. Gulliver CPA, Auburn. Roger is the Chapter Secretary/Treasurer.

Robert L. Fuhriman, CFE, CPA, PriceWaterhouseCoopers, Seattle. Bob is a Chapter Director-At-Large.

Gail G. Rogers, CFE, CIA, Rogers Business Examination Services, Tacoma. Gail is a Chapter Director-At-Large.