

**MCMA Conference May 2, 2013**

## **Questions to Ask Your Finance Director**

Panel Discussion presented by:  
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### **Presentation Outline**

- ▶ **Issues to Ask the Finance Director:**
  - Is Fraud an issue?
  - How do we implement an Anti-Fraud Program?
  - What should be our Fraud Prevention Policies?
- ▶ **What are areas for City Manager Involvement?**
  - Internal Control
  - Financial Reports
- ▶ **What are High Risk Areas?**
- ▶ **Finance Director Perspective**
- ▶ **City Administrator Perspective**

## The Fraud Problem

- ▶ Small organizations are most commonly victimized due to lack of anti-fraud controls
- ▶ Anti-fraud controls appear to reduce the cost & duration of fraud schemes
- ▶ The average fraud lasted an average of 18 months before being detected.
- ▶ Frauds are most likely to be detected by tip
- ▶ One of the industries most commonly victimized is government/public administration

## Behavioral Red Flags of Perpetrators (Is someone stealing?)

- ▶ Living beyond means
- ▶ Financial difficulties
- ▶ Control issues, unwillingness to share duties
- ▶ Unusually close association with vendor/customer
- ▶ Divorce/family problems
- ▶ Irritability, suspiciousness, or defensiveness
- ▶ Addiction problems

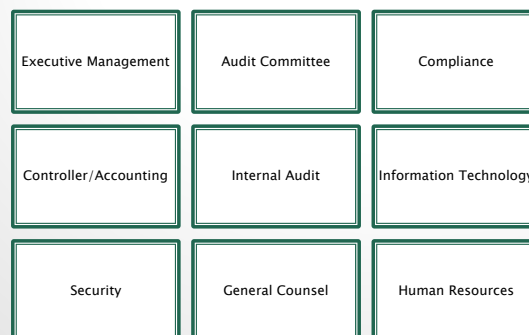
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## Behavioral Red Flags of Perpetrators (Is someone stealing?)

- ▶ Refusal to take vacations
- ▶ Past employment-related problems
- ▶ Complaints about inadequate pay
- ▶ Excessive pressure from within organization
- ▶ Past legal problems
- ▶ Instability in life circumstances
- ▶ Excessive family/peer pressure for success
- ▶ Complaints about lack of authority

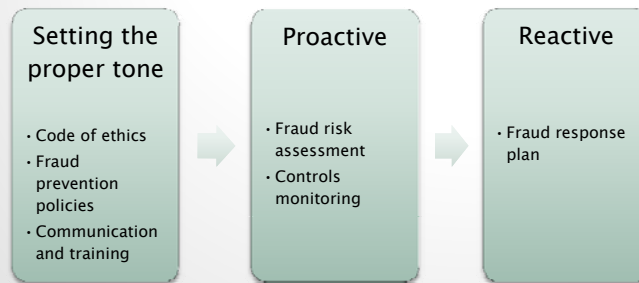
## Implementing an Anti-Fraud Program

- ▶ It is important to involve many departments in the implementation of the anti-fraud program, such as:



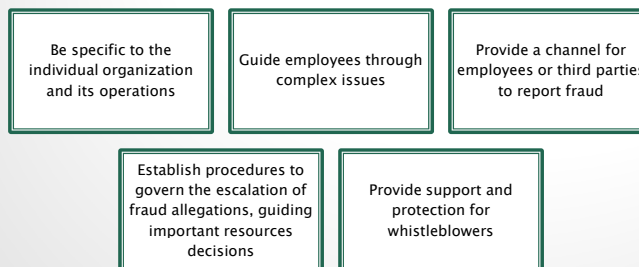
## Implementing an Anti-Fraud Program

- ▶ Anti-fraud programs should consist of three categories:



## Implementing an Anti-Fraud Program

- ▶ Setting the Proper Tone: Fraud Prevention Policies



## Implementing an Anti-Fraud Program

### ► Proactive: Fraud Risk Assessment

Identify common types of fraud schemes that could occur within any organization

Specify fraud schemes that are industry, and sector, specific as well as geographic

Create a road map for future areas to analyze with analytical procedures and determine if controls are sufficient to mitigate

Provide annual and real-time updates to fraud risk assessment work plan to address change in business environment, acquisitions, current issues, etc.

Consider all areas of the organization to identify areas of weakness

## Implementing an Anti-Fraud Program

### ► Proactive: Controls Monitoring

Rank fraud schemes identified within the risk assessment

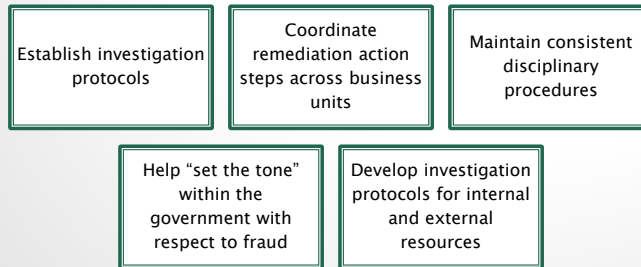
Develop action plans to assess, improve, and/or monitor the controls associated with the risks identified

Report the results of the action plans to executive management and/or the audit committee

Challenge prior year controls and analytics protocols to update with current state issues and effective use of technology

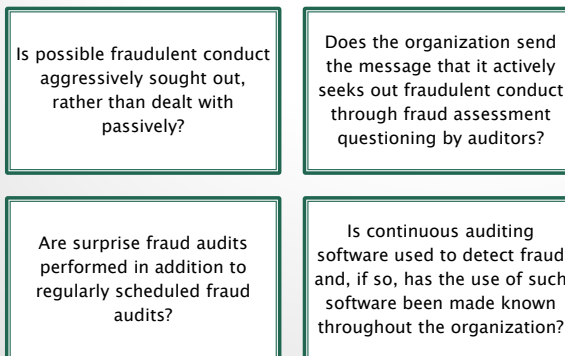
## Implementing an Anti-Fraud Program

### ▶ Reactive: Fraud Response Plan



## Fraud Prevention Policies

### ▶ To increase employees' perception of detection, are the following proactive measures taken and publicized to employees?



## Fraud Prevention Policies

- ▶ Is the management climate/tone at the top one of honesty and integrity?

Are employees surveyed to determine the extent to which they believe management acts with honesty and integrity?

Are performance goals realistic?

Have fraud prevention goals been incorporated into the performance measures against which managers are evaluated and that are used to determine performance-related compensation?

Has the organization established, implemented, and tested a process for oversight of fraud risks by the board of directors or others charged with governance (for example, the audit committee)?

## Fraud Prevention Policies

- ▶ Are fraud risk assessments performed to proactively identify and mitigate the company's vulnerabilities to internal and external fraud?
- ▶ Are strong anti-fraud controls in place and operating effectively, including the following?

Proper segregation of duties

Use of authorizations

Physical safeguards

Job rotation

Mandatory vacations

## Fraud Prevention Policies

- ▶ Are employee support programs in place to assist employees struggling with addiction, mental/emotional health, family, or financial problems?
- ▶ Is an open-door policy in place that allows employees to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?
- ▶ Are anonymous surveys conducted to assess employee morale?

## City Administrator/Manager Involvement with **Internal Control**

- ▶ Approve wire transfers
- ▶ Co-signer on bank accounts
- ▶ Promote fraud policy
- ▶ Sign personnel forms
- ▶ Review bill listings
- ▶ Approve issuance of credit cards
- ▶ Approve new bank accounts
- ▶ Approve all PO's in excess of a certain amount



## City Administrator/Manager Involvement with **Financial Reports**

- ▶ Quarterly meetings with department heads to discuss budget variances
- ▶ Heavily involved in budget process
- ▶ Involved in 5-year capital plan
- ▶ Quarterly meetings to discuss revenue projections
- ▶ Involvement with audit process
- ▶ Review monthly reports in detail
- ▶ Require long term projections (5 years)

## High Risk Areas for Internal Control (partial listing)

- ▶ General Controls
- ▶ Banking
- ▶ Cash Receipts:
  - General
  - Court
  - Parks
- ▶ Payroll
- ▶ Credit Card
- ▶ Cash Disbursements
- ▶ Fuel

## General Controls

- ▶ Is there segregation of duties?
- ▶ Are employees cross trained?
- ▶ Are there documented independent approvals for everything?
- ▶ Does the Finance Director perform analytical reviews?
- ▶ Are the policies and procedures documented?
- ▶ City Administrator should ask questions.

## Banking

### Bank Transfers

- ▶ Set limitations with the bank to only allow transfers to other City accounts or authorized vendors if doing online payments
- ▶ Have the bank require two authorizations

### Bank Reconciliations

- ▶ Independent person from the check writing process should prepare the bank reconciliation or at least review
- ▶ Prepare bank reconciliations timely and investigate differences
- ▶ Investigate old outstanding checks

## Cash Receipts – General

- ▶ Centralize cash receipts if possible
- ▶ Make timely deposits
- ▶ Two people should sign off on every cash count & reconciliation with source reports
- ▶ Pre-numbered receipt books (make sure to reconcile receipt books to deposit)
- ▶ Investigate voided pre-numbered items
- ▶ Investigate adjustments of any kind
- ▶ Track over/short by employee if possible
- ▶ Account for all credit cards reversals (two people should approve all reversals)
- ▶ Follow up on old receivables

## Cash Receipts – Court

Are Court receipts being collected by non-court personnel?

Is someone reconciling?:

- Court receivables monthly
- Bonds payable monthly
- Bond cash and bonds payable
- Tickets issued by ticket number (recommended by state auditor)
- Police bond book with court deposit
- Adjustments – verify approval with judge or docket

## Cash Receipts – Parks

- ▶ Reconcile deposits to monthly reports if possible
- ▶ Monitor park usage – users vs receipts
- ▶ Monitor inventory – compare inventory decreases to receipts
- ▶ Reconcile adjustments or voids

## Payroll

- ▶ Document approval for wage increases
- ▶ Have someone independent enter new employees & restrict access for this
- ▶ Manually pass out paychecks/stubs a few times a year
- ▶ Make sure all time is approved & OT appears reasonable
- ▶ Have another person review & approve before payday

## Credit Card Purchases

- ▶ Reconcile all receipts with the monthly statement
- ▶ Document approval for all purchases
- ▶ Receipts should state valid business purpose for purchase (restaurant receipts should state who attended & what was discussed)
- ▶ Set limits with the CC company regarding credit limits, restrictions on cash advances, and what items can be purchased, if possible

## Cash Disbursements

- ▶ Document approval on all invoices
- ▶ Restrict access for entering new vendors
- ▶ Perform new vendor checks (Google or phone book)
- ▶ The check signer should be independent & they should review the invoices while signing
- ▶ Check that bidding procedures were followed

## Fuel Procedures

- ▶ Track gasoline usage by vehicle and employee
- ▶ Analyze miles per gallon
- ▶ Require employees to enter correct odometer readings
- ▶ Restrict access to fuel pumps

## Questions and Discussion

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