

Financial Fraud

Prevention, Detection, and Action

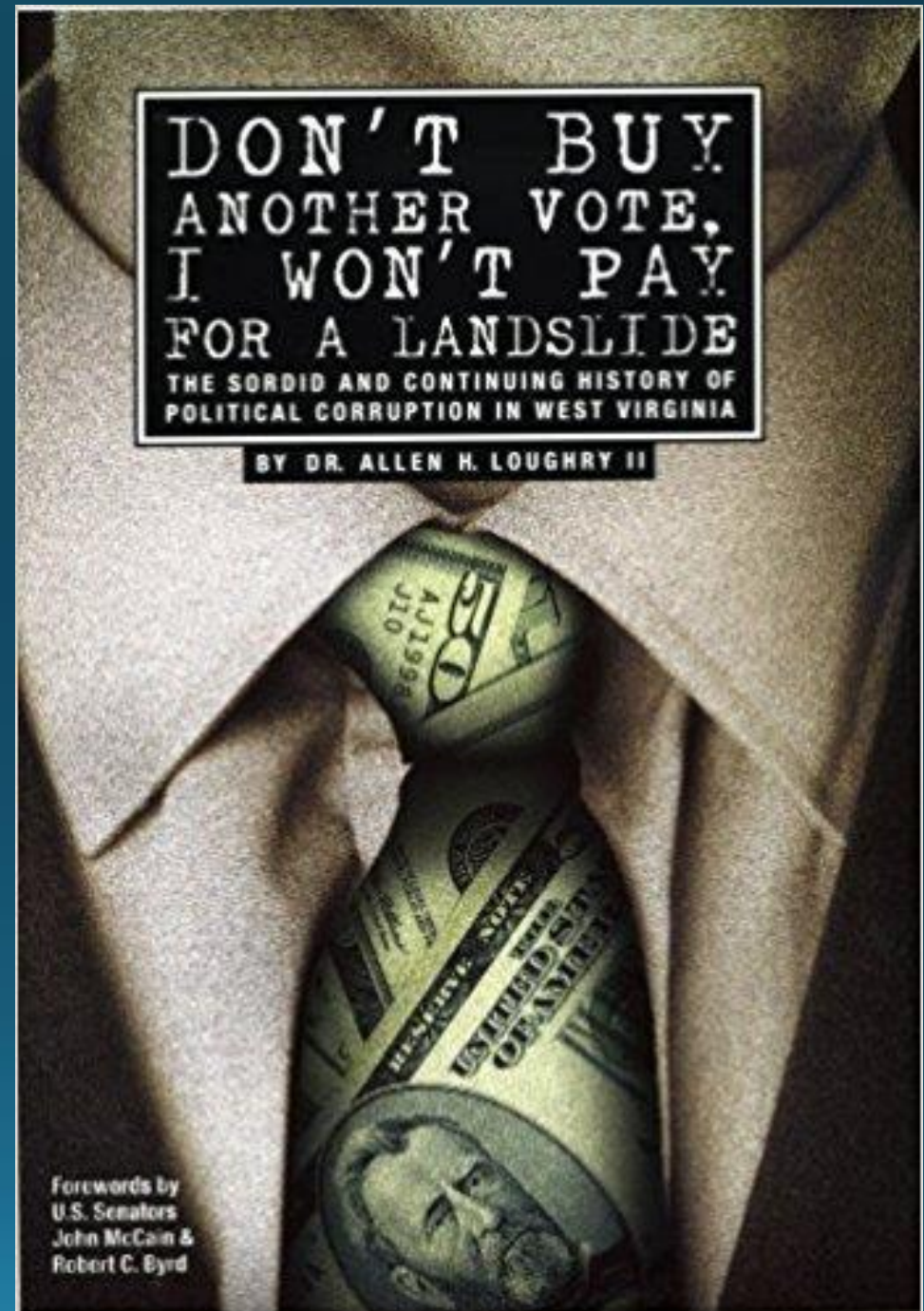


Steve Connolly, Esq.
Director – Public Integrity & Fraud Unit
West Virginia State Auditor's Office



What's the big deal?

- We have a long and storied history of misuse, fraud, waste and abuse.
- We West Virginians have enough stigmas...





The Center for Public Integrity



[State Integrity 2015](#)

West Virginia gets D grade in 2015 State Integrity Investigation (most recent)





Quick Fraud Facts

- Only 1 in 9 cases of fraud are publicized
- 46% of fraud cases come from tips (employees, customers, vendors, media)
- 20% are discovered by pure accident
- About 1/3 of fraud cases are discovered through routine audits
- Average loss is \$200K



Existing problem in west virginia

- No local or County entity has the time, resources or expertise on staff to properly investigate and prosecute a complex public fraud case
 - Sheriff Departments/State Police do not have forensic accountant on staff to be able to handle these document intensive reviews
 - Average investigation takes about 9 to 12 months
- Potential conflicts or appearance of conflict usually require prosecutor to have a special prosecutor appointed



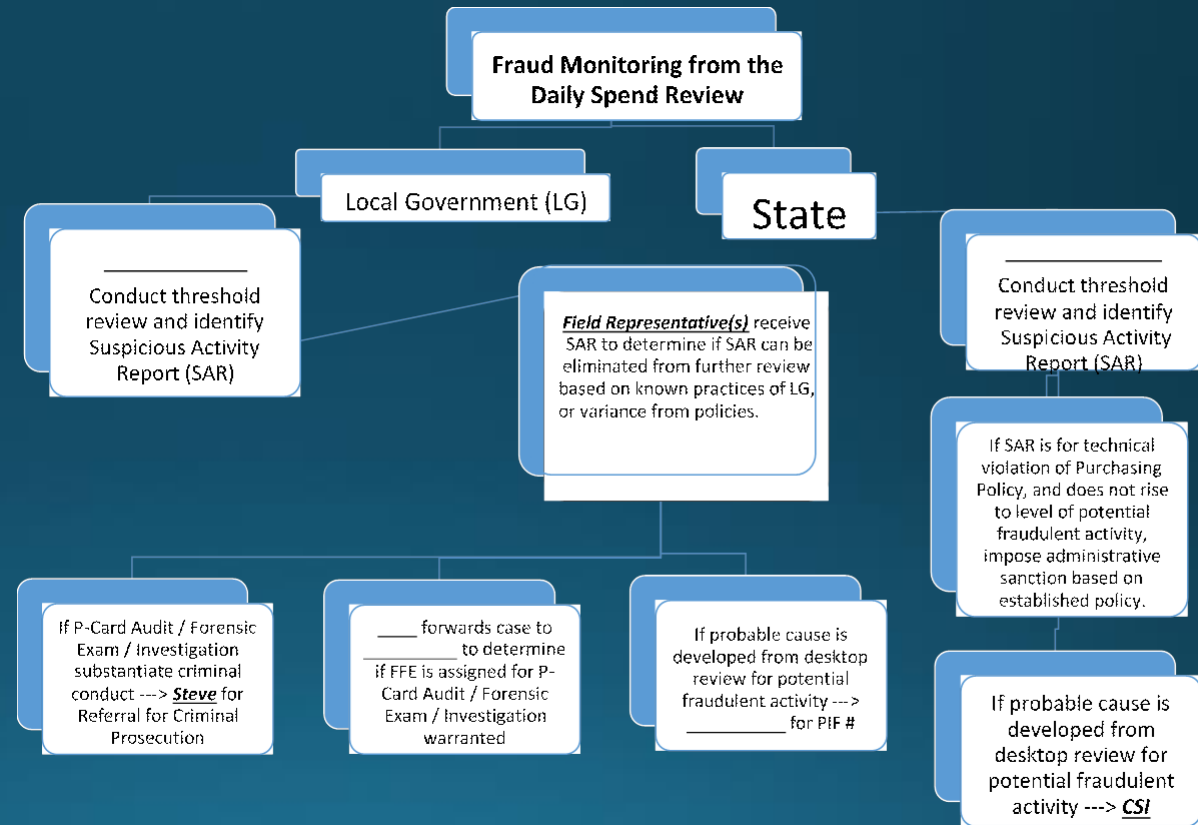
STATE AUDITOR'S NEW PUBLIC INTEGRITY AND FRAUD UNIT

- Statewide entity empowered to properly investigate public fraud matters
- Combine a team of:
 - Forensic Accountants
 - Law Enforcement
 - Former Prosecutors
- Have time, resources and expertise to do a full investigation
 - More importantly, have expertise to prepare matter and evidence for criminal prosecution

STATE AUDITOR'S PUBLIC INTEGRITY AND FRAUD UNIT

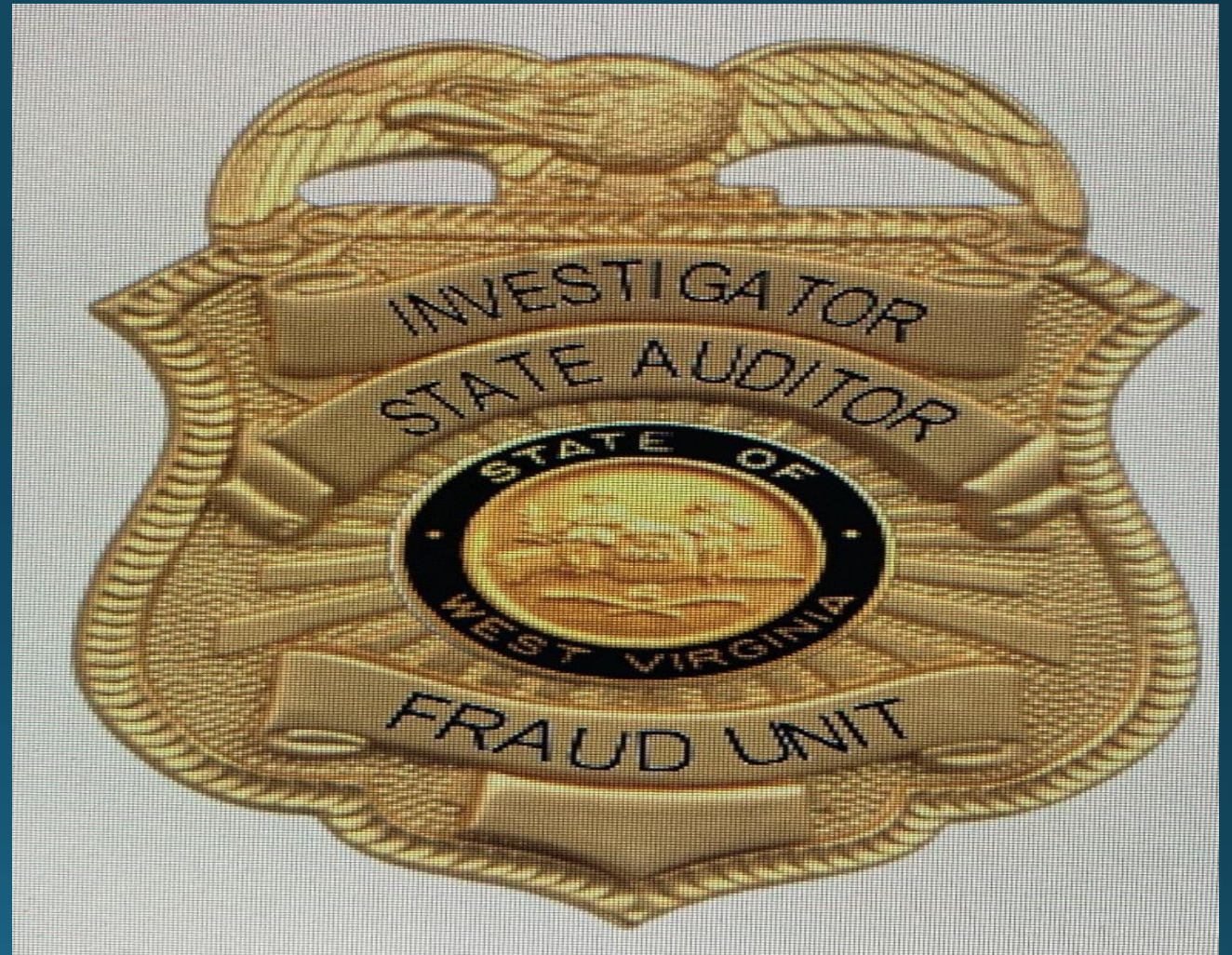


- Fraud Monitoring Program
 - Reviews P-Card Analytics
 - Reviews self-reports
 - Reviews suspicious activity
 - Conducts initial inquiries
 - Recommends investigation



Current Active Cases

- Fifty-five (55) active felony fraud cases
 - 4 state agency level matters
 - 7 county or county subdivision investigations
 - 38 municipalities or municipal subdivision cases
 - 6 volunteer fire departments
- In various stages of review, investigation and prosecution
 - Appointed as special prosecuting attorney in 7 counties
- We work closely with federal and county prosecutors, the Commission on Special Investigations (CSI), the State Police, as well as local law enforcement.



What is fraud?

- Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and the perpetrator achieving a gain, usually monetary.

Three Common Types of Fraud

- Corruption
- Asset Misappropriation
- Financial Statement Fraud



Corruption

- Corruption refers to schemes in which fraudsters use their influence in business transactions that violates their duty to their employers in order to obtain a benefit for themselves or someone else.



Asset Misappropriation

- Asset misappropriation schemes are frauds in which the perpetrator steals or misuses an organization's resources

Financial Statement Fraud

- Financial statement fraud involves the intentional misstatement or omission of material information from the organization's financial reports.
 - This is sometimes referred to as "cooking the books".

Typical Perpetrator Profile

- Gender – Larger and high volume of frauds committed by men
- Age – typically middle aged
- Education – as the level of education rises, so do the losses caused
- Criminal History – majority of perpetrators are first time offenders
- Company Service Time – the longer employed, the bigger the loss
- Department – most likely to work in accounts, sales, customer service, purchasing, engineering, and internal auditing



What influences fraud?

- **Pressures** such as medical bills, expensive taxes, and addition problems can contribute to fraud.
- The “everyone does it” **rationalization**.
- The **opportunity** presented itself through weak controls and override policies.



Source: Association of Government Accountants

Most effective way to deter fraud?

- Removal of the “opportunity” factor by implementing a series of internal controls that provide an actionable route to the deterrence of fraud.

Internal Controls and Fraud Prevention

- Properly designed controls include, but are not limited to, the following:
 - (1) segregation of duties;
 - (2) adequate oversight and supervision;
 - (3) safeguarding of assets;
 - (4) proper authorization;
 - (5) proper documentation; and
 - (6) independent validations.



Once you are alerted

Does suspect know?

- Has the investigation been compromised before it even began?
- You employ different techniques depending on the awareness of the target

Are computers, records, evidence intact?

- Subject may attempt to cover-up (after hours entry or right after you discover the fraud)
- May attempt to replace records (receipt party)
- May attempt to coerce employees
- May stage another crime to cover-up (arson/burglary/etc)

Have you notified your lawyer?

- May begin privilege of documents
- Mark “confidential” or “attorney-work product”
- They will help navigate the HR, criminal and civil issues involved.



Once you are alerted (con't)

Is HR Involved?

- Policies of your organization may allow for discovery and disclosure of potential evidence (*Eg.* Policy may allow you to obtain all office emails, computers, cellphones, equipment, etc.)
- Will help in placing subject(s) on paid administrative leave while investigation commences

Be prepared for retaliation

- That may (will) lawyer up and threaten scorched earth
- Fight for retirement, unemployment, counterclaims or complaints to law enforcement alleging unlawful conduct

Meet early to determine course of action

- Know everyone always wants swift and quiet action
- Prepare for a Certified Fraud Examiner (CFE)
- Determine insurance coverage
- Bank or 3rd party relief?
- Prepare for 3-6 month process
 - Subpoena compliance
 - Law enforcement apathy



Legal Action: Notify Your Attorney

- The notification of your attorney allows you aid and support including:
 - privilege of documents by marking them “confidential” or “attorney-work product, and
 - help navigating the HR, criminal, and civil issues involved.



The only emergency is...

- **Preserve potential evidence**
- **Freeze vulnerable assets**
 - Investments
 - Bank accounts
 - Credit Cards





Soft Targets

- A bank statement for an account unbeknownst to administration/Board
- Charges for unusual transactions
 - Utilities
 - Personal items
- Account statements don't match financial reports presented to the decision makers
- Single signature authority
- Treasurer/Bookkeeper/Controller are irrationally controlling of statements/receipts/documents
- Records kept at their home/offsite



Recent Examples?

Town Recorder Enters Guilty Pleas

- *State v. Bell (Webster County)*
 - Plead guilty to three (3) felony counts of embezzlement and forgery.
 - Recorder for Town of Cowan from May 2015 to February 2018.
 - Stole \$46,552.24 for personal use
 - Sentencing
 - 2-20 years in prison
 - \$48,675.20 in embezzled funds, interest and costs as well as cost of WWSAO investigation

Wheeling HR Director defrauds City of more than \$80,000

- *U.S. v. Hudrilk (Wheeling)*
 - Wire frauds committed June 2016 to March 2018.
 - 6 months in jail; \$130,000 judgment.
 - Caught by P-card audit

Pittsburgh Post-Gazette

News | Local | Sports | Opinion | A&E | Life | Business | Contact Us

Ex-Wheeling HR director gets federal time for \$80K theft scheme

Wheeling City Manager Robert Herron said the city has taken procedural safeguards since learning of the crime.

“The City of Wheeling fully cooperated with the State Auditor, the Federal Bureau of Investigation and the U.S. Attorney’s Office to identify the matters raised in the Information and to hold this person accountable for orchestrating a very complex scheme. The discrepancies and concerns were found at one of the earliest possible junctures in the process of a routine audit. This was an administrator in a position of trust and the mechanics of the actions involved with these matters was quite sophisticated and not easily detectable.



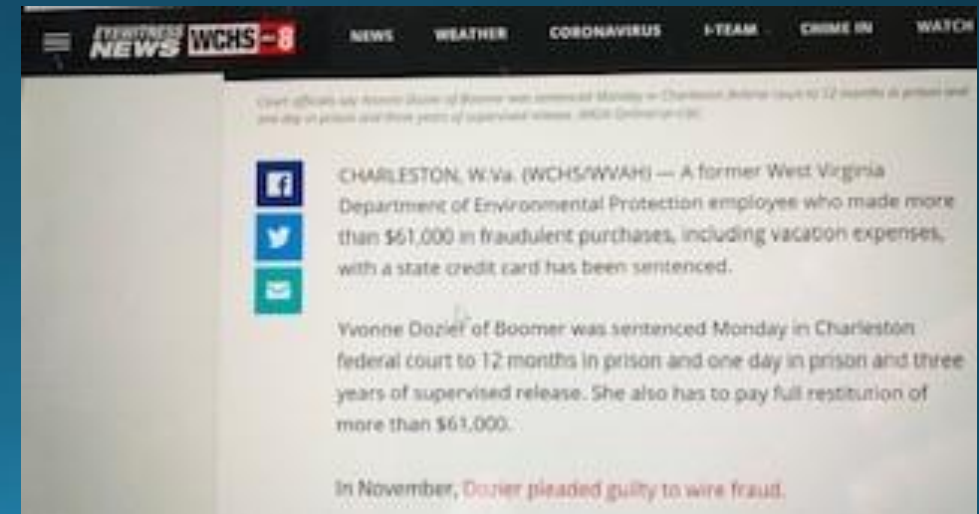
Federal Convictions

Fire Department Treasurer and his Bookkeeper Wife embezzle more than \$237,000.

- *U.S. v. Gwinn*
 - Retired Navy Veteran/Former Cabinet Secretary of Dept. of Veteran Affairs.
 - Named Treasurer for Board of Directors
 - Wife has Quickbooks experience
 - Opens line of credit in name of FD with single signature authority (\$100K).
 - Buys \$10,000 in guns for nonexistent raffle
 - Pays wife \$67K for bookkeeping
 - Caught by Suspicious Activity Report (SAR)
 - Both plead by federal information
 - Wife receives 50 weekends in jail = restitution = probation; He receives 39 months in federal prison + restitution

DEP P-Card Coordinator Convicted

- *U.S. v. Dozier*
 - Federal wire fraud conviction 2/24/20.
 - 1 year and a day in prison.
 - 3 years supervised release.
 - Stole more than \$61,000 over 4 years.



More examples



Former Magistrate Gets Jailtime

- *State v. Yeager (Kanawha County)*
 - Plead guilty to two (2) felony counts of embezzlement and fraudulent schemes.
 - Kanawha County Magistrate for 12 years
 - Stole \$ 31,299.92 for personal use from 2012 to 2017 timeframe from WV Magistrates Association, funded by WV Supreme Court
 - Sentencing
 - 1-10 years in prison
 - Surrendered retirement
 - Family paid back restitution before plea
 - 4 years probation

Fire Chief defrauds Union VFD out of more than \$80,000

- *State v. Dunbar (Monroe County)*
 - Indicted three (3) felony counts
 - Embezzlement
 - Fraudulent Scheme
 - Uttering a forged writing
 - Total value of funds taken from the fire department calculated at \$85,774.13
 - Thefts occurred 1/1/14 though 6/30/17
 - Was already under indictment for crimes against Monroe County B.O.E.
 - Plead Guilty to 2 counts. 1-10 in Penitentiary



More examples

Chief Deputy Circuit Clerk Pleads Guilty
Embezzlement / Fraudulent Schemes

- *State v. Feaster (Mineral County)*
 - State Auditor appointed Special Prosecutor
 - Information filed pursuant to plea agreement
 - Embezzlement
 - Fraudulent Scheme
 - Total value of funds taken from Circuit Clerk \$65,000 - \$87,000
 - Thefts occurred over 3 years
 - 4 mechanisms of fraud
 - Plea/Sentencing set for 8/19/20



Nitro Municipal Clerk Convicted

- *State v. Smith (Kanawha County)*
 - Plead guilty to felony embezzlement.
 - Returned \$70,000 in restitution to City of Nitro.
 - Sentencing
 - 1-10 years in prison
 - 5 years probation
 - Family paid back restitution before plea

Anything else?



Lewis County BOE Employees Convicted

- *State v. Bennett / State v. Sears*
 - Bennett & Sears worked in BOE Transportation Dept.
 - Bennett used county Purchasing Card to purchase dozens of tires for his family's vehicles and others. Also other personal purchases.
 - Sears got benefit of tires as an employee
 - Sears convicted of Petit Larceny.
 - Bennett convicted of felony purchasing card fraud.
 - Sentenced to 1-5 in prison. 5 years probation.

WVU Extension Agent Convicted in Ritchie County

- *State v. Deem*
 - Plead Guilty to Fraudulent Schemes.
 - Faces up to 10 years incarceration.
 - Caught by 4-H rental money undeposited. Lead to 57 instances of double/triple reimbursements for travel, undeposited fundraising funds.

City of Richwood

- Refer to the Executive Summary provided for explanation of engagement
- March 29, 2019: Arrests.
- Police chief's charges dismissed at preliminary hearing. Mayor Drennen indicted on 3 counts – pending trial.
- Others await prosecution state/federal.
- Read the full report at:

<https://www.wvsao.gov/SpecialInvestigation/Default#CityOfRichwood>



Report of Investigation City of Richwood



Public Integrity
and Fraud Unit

March 29
20
19



SOME HELPFUL TAKEAWAYS

- Actually look at the receipts; Request originals
- Watch out for the Forwarded Email receipt
- Be careful of the chronic late receipts
- If something is missing from a receipt, find out why
- If suspicious, double check SKU on a receipt
- Require your CFO or key financial personnel to take a vacation, preferably 2 consecutive weeks

- CONTACT US....even if it is just your gut!!



File an anonymous complaint at:

www.wvsao.gov



My Contact:

Steve Connolly
General Counsel – Deputy State Auditor
Director – Public Integrity & Fraud Unit
WV State Auditor's Office
State Capitol Building
Building 1, Suite W-100
1900 Kanawha Blvd.
Charleston, WV 25305

Phone 304-558-2251 x 2557

steve.connolly@wvsao.gov