

LW Consulting

MUNICIPAL SYMPOSIUM
MUNICIPAL FRAUD
MAY 6, 2016

Agenda

- Training Ground Rules;
- Housekeeping;
- Parking Lot;
- Objective;
- Group Activity;
- Municipal Fraud;
- Current and previous Court Cases;



LW Consulting

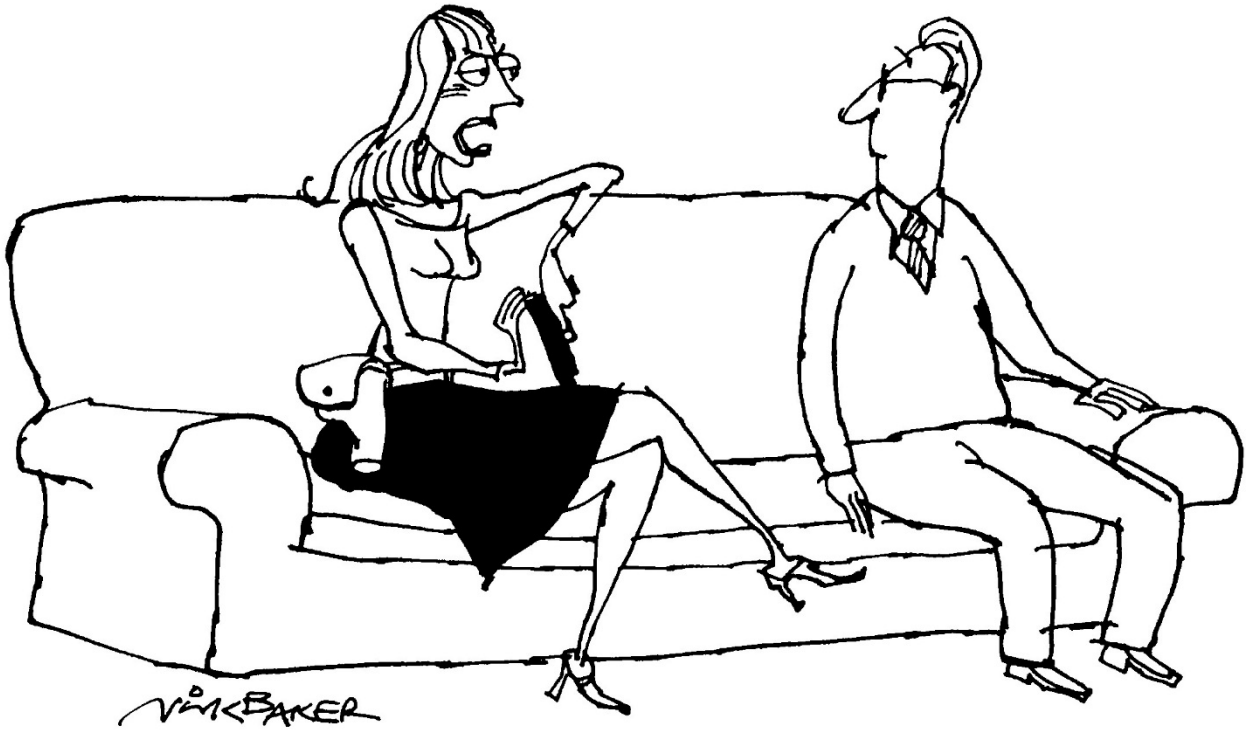
Agenda

- What research tells us;
- Why individuals commit theft and fraud:
- Requirements for theft and fraud;
- Tips to prevent theft and fraud;
- Steps to address employee theft and fraud;
- Q and A; and
- Conclusion.



LW Consulting

Training Ground Rules



"Before we get too deeply involved, I feel we should establish certain ground rules, Jeremy."

LW Consulting

Training Ground Rules

- Actively participate and state your opinion honestly so that everyone can benefit from frank discussion.
- Let one person speak at a time to ensure that quieter voices are heard in both small and larger groups.
- Make comments to the whole group and don't participate in side conversations.

LW Consulting

Training Ground Rules

- Discuss ideas or opinions, not person expressing them.
- Ask questions freely at any time.
- Have phones on vibrate and only take urgent calls during the training session.

LW Consulting

Housekeeping



“Right, moving on to the housekeeping...”

LW Consulting

Housekeeping

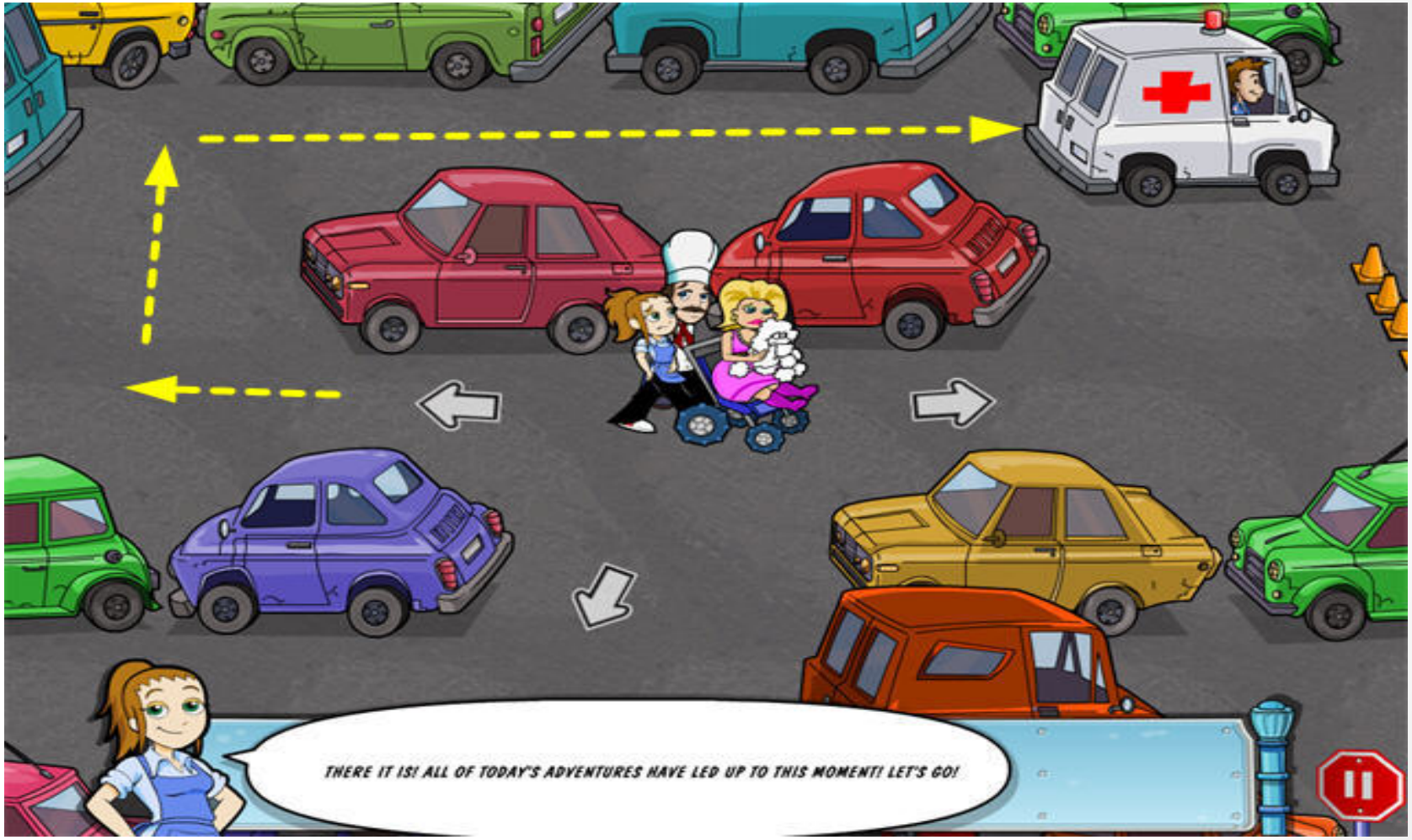
Workshop:11:30 am – 12:30 pm

One Small Group Session

Washroom locations

LW Consulting

Parking Lot



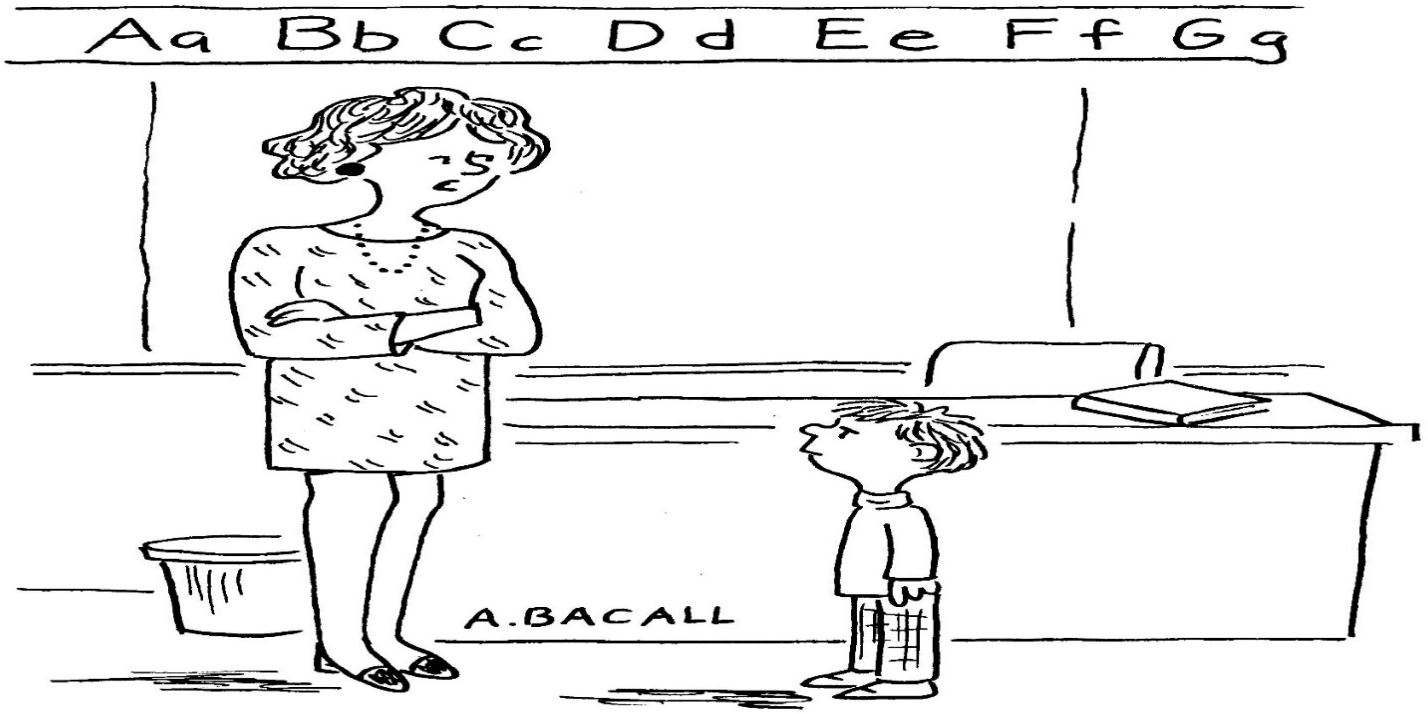
LW Consulting

Parking Lot

- Anything not included in the Agenda may be raised.
- These subjects will be discussed during the Q and A.
- Any issues for which answers are not available, information will be obtained and provided.

LW Consulting

Objective



"My objective is to have each student become more insightful, compassionate, introspective, and empathetic. In your case I will settle for quiet."

LW Consulting

Objective

- To provide an overview of:
  - Municipal Fraud:
    - Why it happens;
    - Tips to prevent; and
    - Steps to address it when it happens.

LW Consulting

Group Activity Instructions

- Small Discussion Groups.
- Introductions.
- Choose Facilitator to coordinate discussions.
- Choose a spokesperson to report results.

LW Consulting

First Group Activity Instructions

- Each group is required to prepare a response to the following:
  - What can Council's do to reduce fraud within municipalities?

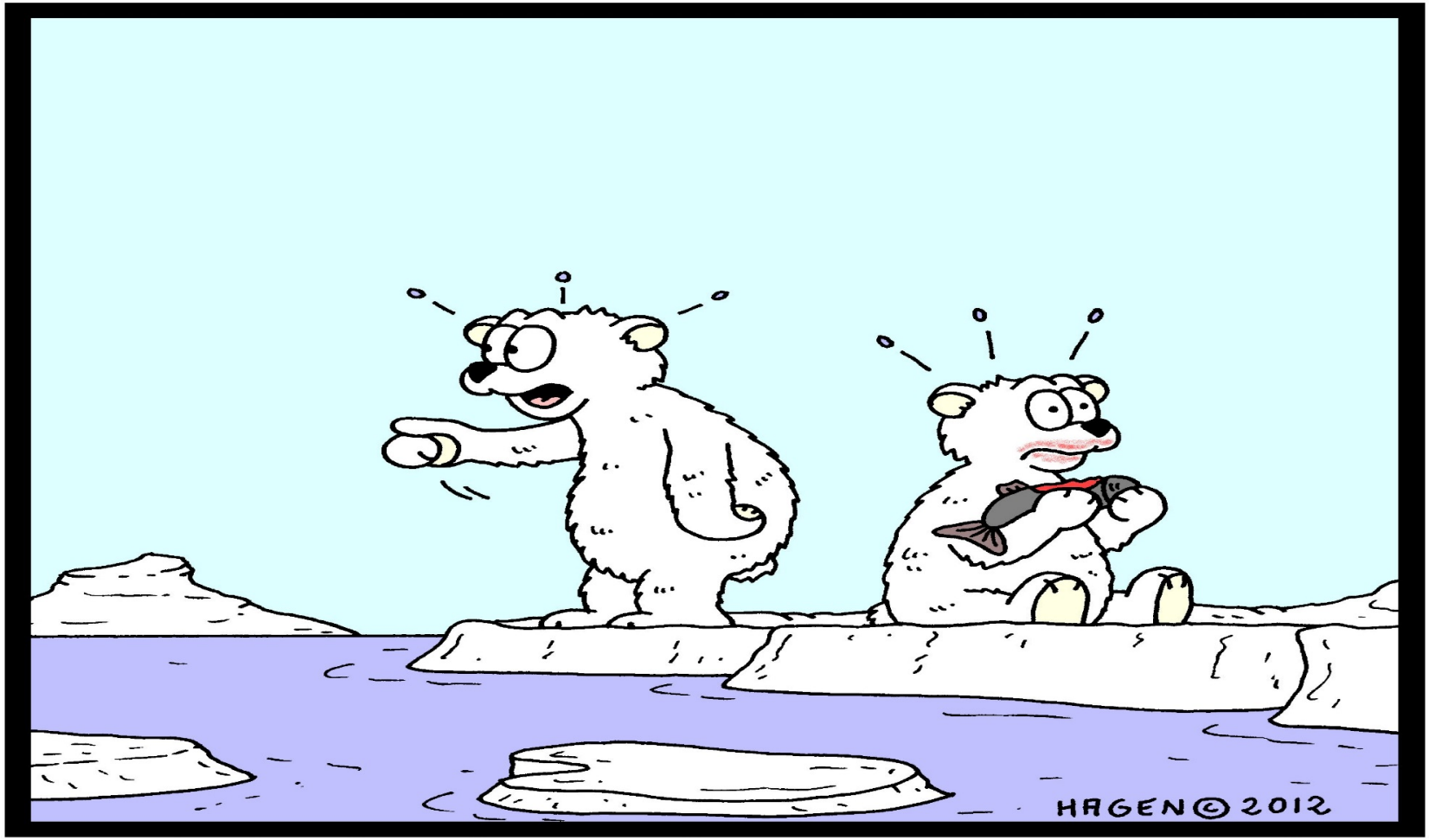
LW Consulting

First Group Report



LW Consulting

Icebreaker



Uh oh, there's an icebreaker coming our way!

LW Consulting

Icebreaker

- A therapist has a theory that couples who make love once a day are the happiest.
- So he tests it at a seminar by asking those assembled, “How many people here make love once a day?”
- Half the people raise their hands, each of them grinning widely.

LW Consulting

Icebreaker

- “Once a week?” A third of the audience members raise their hands, their grins a bit less vibrant.
- “Once a month?” A few hands tepidly go up.
- Then he asks, “OK, how about once a year?”
- One man in the back jumps up and down, jubilantly waving his hands.

LW Consulting

Icebreaker

- The therapist is shocked – this disproves his theory.
- “If you make love only once a year,” he asks, “why are you so happy?”
- The man yells, “Today’s the day!”

LW Consulting

Municipal Fraud



LW Consulting

Municipal Fraud

Court Cases:



LW Consulting

Municipal Fraud

- Municipal Fraud cases currently before Courts:
  - Former Town Manager of Harbour Grace charged with breech of trust by a public official, theft over $5,000 and theft under $5,000;
  - Former Senior Management Member of Placentia charged with twenty **(20)** counts of fraud and four (4) charges of forgery;

LW Consulting

Municipal Fraud

- Municipal Fraud cases currently before Courts:
  - Former Town Clerk of Happy Adventure charged with theft under $1,000, fraud over $5,000, forgery, uttering forged document, and mischief by destroying data;

LW Consulting

Municipal Fraud

- Municipal Fraud previous court cases:
  - Former Town Clerk of St. Bernard's – Jacques Fontaine pled guilty to separate charges of fraud over $5,000 and theft over $5,000 involving funds totalling $22,524.94;
  - Volunteer collecting in Deep Bight admitted to pocketing almost $10,000;

LW Consulting

Municipal Fraud

- Municipal Fraud previous court cases:
  - Former Town Clerk of King's Point convicted of stealing $1,800; and
  - Town Clerk of Leading Tickles convicted of stealing $72,000.

LW Consulting

Municipal Fraud

Research



LW Consulting

Municipal Fraud

- Review of literature and information published by Canadian/US Association of Certified Fraud Examiners provides excellent information on fraud including:
  - Top emerging source of fraud is employee embezzlement;
  - Most frauds occur in government and public administration;

LW Consulting

Municipal Fraud

- Review of literature and information published by Canadian/US Association of Certified Fraud Examiners provides excellent information on fraud including:
  - Majority of fraud cases involves theft or misuse of cash and non-cash assets;
  - Frauds generally occur over period of eighteen (18) to twenty-four (24) months;

LW Consulting

Municipal Fraud

- Review of literature and information published by Canadian/US Association of Certified Fraud Examiners provides excellent information on fraud including:
  - Fraud normally discovered by tip from staff, vendor or customer with biggest sources of tips coming from employees via whistleblower processes;

LW Consulting

Municipal Fraud

- Review of literature and information published by Canadian/US Association of Certified Fraud Examiners provides excellent information on fraud including:
  - Internal controls and audits are second greatest source of discovering fraud;
  - Over 85% of those committing fraud have never been charged or convicted of a crime;

LW Consulting

Municipal Fraud

- Review of literature and information published by Canadian/US Association of Certified Fraud Examiners provides excellent information on fraud including:
  - Education is the key to addressing the growing frequency of fraud.
  - External audits are not always successful in fraud detection and restricting losses;

LW Consulting

Municipal Fraud

- Review of literature and information published by Canadian/US Association of Certified Fraud Examiners provides excellent information on fraud including:
  - Auditors do not specifically look for fraud; rely on management to provide accurate information and record all transactions; give opinion financial statements fairly represents your financial statements.

LW Consulting

Municipal Fraud

- Review of literature and information published by Canadian/US Association of Certified Fraud Examiners provides excellent information on fraud including:
  - Only one **(1)** in nine **(9)** fraud cases appears in media;
  - Two (2) main areas of fraud exist in accounting, management fraud **(financial statement fraud)** and employee fraud **(or embezzlement)** which is our focus.

LW Consulting

Municipal Fraud

Motives for committing fraud and theft:



LW Consulting

Municipal Fraud

- Those committing fraud usually have motive, including:
  - Feeling dissatisfied or being unfairly treated;
  - Living beyond their financial means or facing huge medical expenses;
  - Excessive gambling, drug, or alcohol addiction;
  - A perceived lack of internal controls;

LW Consulting

Municipal Fraud

- Those committing fraud usually have motive, including:
  - Concentrated power and authority without being regularly checked;
  - Increasing disregard for Council; and
  - A sense that there are no consequences for their behaviour.

LW Consulting

Municipal Fraud

Requirements for fraud:



LW Consulting

Municipal Fraud

- All that is required for theft and fraud is:
  - The right motivation and lack of proper controls;
  - Stealing being rationalized by one's attitude towards right and wrong; and
  - Stealing is not an accident just careful planning before the incident.

LW Consulting

Municipal Fraud

- Personal characteristics that were likely found within individuals living a socially responsible life, things like ethics, morals, and pride, have been replaced by greed, self-promotion and the “what’s in it for me” mentality.
- Volunteers who collect donations at charity events have as much access to funds to divert for personal benefit as do accounts payable clerks who process payments.

LW Consulting

Municipal Fraud

Tips to prevent employee theft and fraud:



LW Consulting

Municipal Fraud

- Tips to prevent employee theft and fraud:
  - Create a positive work environment;
  - Encourage employees to follow established policies and procedures and act in best interest of municipality;
  - Develop and implement an employee code of conduct and a confidentiality agreement;
  - Develop a positive employee recognition program;

LW Consulting

Municipal Fraud

- Tips to prevent employee theft and fraud:
  - Develop policies and procedures with provisions for discipline for violations that are consistently enforced;
  - Develop and maintain open lines of communications between management and employees;
  - Develop and implement policies on employee use of documents or equipment outside workplace;

LW Consulting

Municipal Fraud

- Tips to prevent employee theft and fraud:
  - Develop an appropriate process to document the provision of professional services **(MOU including description of services, timeframe, require 10% holdback, payable upon submission of final report for review and approval by Council);**

LW Consulting

Municipal Fraud

- Tips to prevent employee theft and fraud:
  - Develop policies and procedures on doing business with companies owned or controlled by employees or their specified relatives;
  - Develop social or promotional event policy **(report outlining rationale for event, number of attendees, estimated total cost, for Council's review and approval).**

LW Consulting

Municipal Fraud

- Tips to prevent employee theft and fraud:
  - Develop discretionary spending policy for promotional policies, souvenir and other VIP gifts **(report to provide rationale for purchases, quantities, prices, and distribution criteria control procedures, for Council's review and approval).**

LW Consulting

Municipal Fraud

- Tips to prevent employee theft and fraud:
  - Develop and implement a Whistleblower and Fraud Response policies.
  - Develop and deliver training for management and employees on fraud, including what constitutes fraud and consequences of fraudulent activities;

LW Consulting

Municipal Fraud

- Tips to prevent employee theft and fraud:
  - All cheques to be mailed and delivery of cheques by Council or staff to be prohibited.
  - Bank statements to be forwarded and reconciled by someone other than those doing cash receipts and disbursement functions;

LW Consulting

Municipal Fraud

- Tips to prevent employee theft and fraud:
  - Implement internal controls:
    - Separation of duties – recording and processing of transactions should be separated;
    - Access controls –restrict access to physical, financial assets, information/accounting systems to authorized employees;

LW Consulting

Municipal Fraud

- Tips to prevent employee theft and fraud:
  - Implement internal controls:
    - Authorization controls – develop policies on how financial transactions are initiated, authorized, recorded and received;
    - Monitor vacation – employees who may have something to hide may not want to take a vacation in fear that something could be detected;

LW Consulting

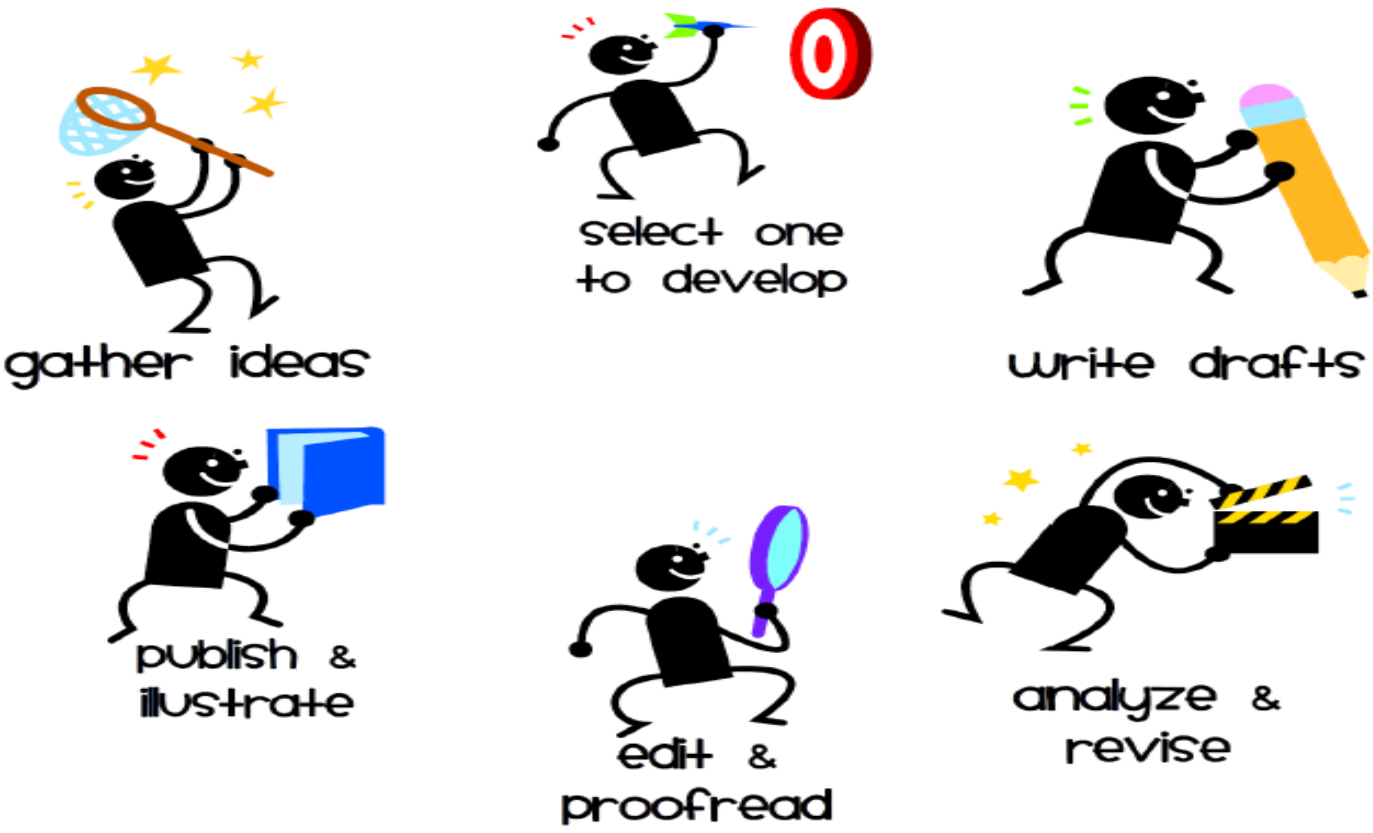
Municipal Fraud

- Tips to prevent employee theft and fraud:
  - Implement internal controls:
    - Rotate jobs – provides opportunity to review activities performed; and
    - Establish a Finance Committee with approved Terms of Reference **(critical for small municipalities with limited staff to monitor cash handling processes).**

LW Consulting

Municipal Fraud

Steps to address employee theft and fraud:



LW Consulting

Municipal Fraud

- Steps to address employee theft and fraud:
  - Investigate:
    - Preserve evidence – before a suspect can destroy it;
    - Protect any electronic financial data;
    - Make copies of relevant paperwork; and
    - Contact lawyer and Certified Fraud Examiner **(qualified auditor).**

LW Consulting

Municipal Fraud

- Steps to address employee theft and fraud:
  - Limit losses:
    - Consult lawyer on potential options including potential of withholding any funds owning to employee.

LW Consulting

Municipal Fraud

- Steps to address employee theft and fraud:
  - Communicate carefully:
    - Do not tell employees individual was let go for stealing **(potential defamation if charges not upheld);**
    - Send memo to employees stating that the person is no longer working; and
    - Designate someone to answer any questions.

LW Consulting

Municipal Fraud

Summary:



LW Consulting

Municipal Fraud

- Summary:
  - There is no foolproof method to prevent fraud. Anyone wanting to commit fraud will find ways and means of doing so.

LW Consulting

Municipal Fraud

- Summary:
  - Look for employee dissatisfaction;
  - Encourage a culture of honesty;
  - Minimize opportunities for theft wherever possible;
  - Initiate internal controls; and
  - Implement appropriate policies and procedures

Reduces and prevents fraud and theft!

LW Consulting

Q and A



"Does anyone have a question?"

LW Consulting

Conclusion
Information on LW Consulting



LW Consulting

Conclusion
Information on LW Consulting

- Partnership: Gerard Lewis, Keith Warren and Stephen Wheeler):
  - Feasibility studies/municipal organization review.
  - Priority setting facilitation/strategic planning.
  - Commissioner: Town Plans/Property Tax Assessment.
  - Development of policies, procedures and bylaws.
  - Recruitment and selection of municipal staff.
  - Collective bargaining.

LW Consulting

Conclusion
Contact Information

- **Gerard Lewis, MMC**
- **709-730-4514**
- **Email: lewis.gerard@bellaliant.net**
- **Keith Warren**
- **709-730-1495**
- **Email: keithewarren@bellaliant.net**
- **Stephen Wheeler**
- **709-764-6715**
- **Email: stephen@nathan-james.ca**

LW Consulting



LW Consulting