



•Mulcahy Accounting & Risk Consulting•

William J. Mulcahy, CPA, CIA, MS

City of Dunwoody Audit Committee
Monday August 8, 2011
3 PM – Dunwoody City Hall

1. Results of Strategic Risk Assessment interviews with City Manager, City Attorney, CFO, Purchasing Manager, Police Chief and Mauldin & Jenkins, CPAs. This is a list (not on priority order) of items for consideration as to future internal audit projects. At one internal audit project per quarter this list would take years to complete.

- 911 Contract
- Procurement procedures
- Major transaction for land
- p-cards
- Chris Pike's list from Dunwoody Accounting Conference (See #7 Below)
- Bank reconciliations
- New contractors
- Police procedures such as use of weapons and accidents
- Cash procedures
- Court collections and reconciliations

2. Recent audit & risk incidents in governments (NOT Dunwoody) as well as Fraud and Abuse items

- a. Ethics Officer in the State of Georgia - reputational risk based on newspaper articles
- b. Police Chief in Powder Springs - selling old police cars
- c. Gwinnett land deals - with apparent conflict of interest
- d. Association of Certified Fraud Examiners - tip is # 1 method to catch fraud & abuse
- e. Government Fraud Risk in the Treasury Function

3. Recommendation(s) for the City of Dunwoody

- Whistleblower line and related procedures
- Financial attestation process like Sarbanes-Oxley Section 302

4. Report of the Internal Auditor for period ended 6/30/2011

- Scope – Strategic Risk Assessment as indicated in # 1 above
 - Analytical review of 6/30/11 Financial Report with no exceptions
 - Verbal assertion by Chris Pike, CFO that all transactions are in line with City charter, budget, ordinances and resolutions

5. Continuous Monitoring Report of City Internal Auditor – William J. Mulcahy

In connection with the scope of my work described above, I identified no city expenditures or other financial matters that I as the internal auditor determined to be not in compliance with (a) the provisions of the charter, (b) the applicable city budget, and (c) applicable ordinances, resolutions, or other actions duly adopted under the provisions of the charter.

6. Plan for next quarter
 - a. Continuous Monitoring Report of City Internal Auditor
 - b. Contract Compliance Audit Report
7. Chris Pike, CFO list from Dunwoody Accounting Conference

The instructor went over five key elements suggested by the Treadway Commission. The good news is that we do ALL five of those elements that included having an audit committee, code of ethics, internal auditor, etc.

Items to Include in our Internal Audit Program:

1. **Don't focus on materiality.** If people know what management considers material enough to investigate, they will simply stay under that threshold.
2. Perform periodic (every two years or so) dependency audits to ensure extra dependents are not inaccurately included on employee benefits.
3. Make sure in our attempts to have everyone cross-trained, that we don't end up having the same person perform different control functions (e.g., the same person taking money and doing the deposit.)
4. Auditors will often get our check range and audit a number of checks within that range. We need to make sure drafts that aren't checks (ACH, Wires) are also audited.
5. Samples of vendors should be monitored to ensure legitimacy.
6. Does the check amount match the invoice amount? (This was fascinating. The risk here is that someone may accidentally or deliberately write a check for an amount higher than the invoice. The vendor notifies the City of the mistake and are then instructed to return the money to the person who wrote the check.) The disbursement was approved and there is nothing to ensure the refund gets properly posted or returned.
7. Controls should be in place to ensure someone other than Accounting staff are notified when there is a positive pay error. (The risk here is that a bad check enters the system. The bank calls Accounting who simply agrees to let the check go through.)
8. We need to make sure we are properly canceling invoices. We have the process but is it being done?

Again, easy and practical processes to put into motion to help prevent errors and fraud.

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Types of Frauds and Frequency by Industry

Occupational Fraud, Based on Industry - Sorted by Frequency			
Industry	# Cases	% Cases	Med. Loss
Banking/Financial Services	258	18.8%	\$ 175,000
Manufacturing	195	13.7%	\$ 300,000
Government and Public Administration	179	9.8%	\$ 81,000
Retail	119	8.8%	\$ 85,000
Health Care	107	7.9%	\$ 150,000
Insurance	91	6.1%	\$ 197,000
Education	80	5.8%	\$ 71,000
Services - Other	88	4.9%	\$ 108,000
Construction	77	4.3%	\$ 200,000
Technology	65	3.8%	\$ 250,000
Transportation and Warehousing	62	3.4%	\$ 300,000
Oil and Gas	57	3.2%	\$ 478,000
Real Estate	57	3.2%	\$ 475,000
Services - Professional	51	2.8%	\$ 110,000
Arts, Entertainment, and Recreation	49	2.7%	\$ 180,000
Utilities	42	2.5%	\$ 120,000
Wholesale Trade	42	2.3%	\$ 313,000
Religious, Charitable, or Social Service Organizations	41	2.3%	\$ 79,000

Source - 2010 Report to the Nation on Occupational Fraud and Abuse

NOTICEABLY DIFFERENT

Types of Frauds and Frequency

Govt. & Public Administration - 176 Cases		
Scheme	Cases	%
Corruption	57	32.4%
Billing	43	24.4%
Expense Reimbursement	32	18.2%
Non-Cash (including securities/investments)	30	17.0%
Cash Larceny	25	14.2%
Check Tampering	24	13.6%
Skimming	23	13.1%
Cash on Hand	21	11.9%
Payroll	20	11.4%
Fraudulent Statements	5	2.8%
Register Disbursements	5	2.8%

Source - 2010 Report to the Nation on Occupational Fraud and Abuse

NOTICEABLY DIFFERENT

Anti-Fraud Measures - Government Cases

By Category	
Control	%
Tip - Hotline	46.3%
Internal Controls/Management Review	23.3%
Internal Audit	15.1%
Accident	5.3%
External Audit	7.4%
Police	1.3%
Confession	1.3%

Source - 2010 Report to the Nation on Occupational Fraud and Abuse

NOTICEABLY DIFFERENT

Anti-Fraud Measures (Used vs. Used Successfully)

- Across all organizations, **Occupational Frauds are more likely to be detected by a tip** than by other means such as internal audits, external audits or internal controls
- Make detection easier – have an anonymous tip line

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NOTICEABLY DIFFERENT



Types of Frauds and Loss Size

Schemes Involving Fraudulent Disbursements of Cash		
Category	Description	Median Loss
Billing	Any scheme in which a person causes his or her employer to issue a payment by submitting invoices for fictitious goods or services, inflated invoices or invoices for personal purchases.	\$ 128,000
Expense Reimbursement	Any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses.	\$ 33,000
Check Tampering	Any scheme in which a person steals his or her employer's funds by forging or altering a check on one of the organization's bank accounts, or steals a check the organization has legitimately issued to another payee.	\$ 131,000
Payroll	Any scheme in which an employee causes his or her employer to issue a payment by making false claims for compensation.	\$ 72,000
Register Disbursements	Any scheme in which an employee makes false entries on a cash register to conceal the fraudulent removal of cash.	\$ 23,000

Source – 2010 Report to the Nation on Occupational Fraud and Abuse

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NOTICEABLY DIFFERENT



Fraud Scenario – PCards

- High-level individuals with PCards
- Personal home remodeling expenses charged and paid
- Weak oversight and review of PCards
- Collateral damage – other errors were found in payroll processing
- Compensation incorrectly reported – W2's revised, 1040's revised, voluntary compliance program

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NOTICEABLY DIFFERENT

