Government Fraud Considerations and Case Studies

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Goals and Overview

• Example fraud risks for local governments
• Case Studies
• Discussion of Bitcoin
Speaker Background

- Specializes in litigation support services with an emphasis on forensic accounting and fraud examinations
- Gathering forensic evidence and testifying to findings
- Author of *Using Analytics to Detect Possible Fraud-Tools and Techniques*, published by Wiley in 2013
- Author of several articles printed in both the ACFE Fraud Magazine and NACVA’s QuickRead
Government-Specific Fraud Risks
Corruption examples for local governments:
- Official bribery
- Procurement schemes (e.g., bid rigging)
- Kickback schemes
  - Typically involve collusion between governmental employee(s) and vendor
  - Almost always found in purchasing function
  - Vendor will submit fraudulent or inflated invoice to the governmental entity and an employee of the entity helps make sure that a payment is made on the false invoice
  - The employee receives a payment ("kickback") from the vendor
Case Studies

• Bid requirements for purchases of vehicles
  - Two local auto dealerships
  - Only one bid for three consecutive years
• **Fraudulent financial reporting examples for local governments:**
  - Misstating revenue/expenditure amounts to meet budget or targeted year-end fund balance
  - Overstating assets or revenues for bond covenant compliance purposes (revenue bonds)
  - Overstating assets or revenues for purposes of maintaining bond rating
  - Overstatement of grant expenditures to avoid having to return unused grant funds
  - Overstatement or misclassification of expenditures in order to meet matching requirements of grants
Government Fraud Risks

• Misappropriation of assets examples for local governments:
  - Skimming of cash receipts
  - Theft of assets (equipment, supplies, gasoline)
  - Fraudulent disbursements
    • Ghost employee schemes
    • Fictitious vendor schemes
Case Studies

• The case of the confiscated inventory
  - Confiscated gambling machines that were to be destroyed
  - Provided “proof” of destruction
  - Found less than a year later in another raid

• The case of the missing ticket books
  - Produced on threat of termination
  - Tickets written with cash collected by officer
  - Cash used to support drug habit
  - Officer voluntarily entered rehab
Other Governmental Risks

• Risks inherent with elected officials
  - For example, elected sheriff that does not feel he needs to act in accordance with County policy or cooperate with finance department

• Cash accounts not maintained on the GL
  - Often the case with certain sheriff’s or clerk of court funds
  - Accounts balances may be reconciled and recorded in financial statements at year end as agency funds, but what about receipt/disbursement activity?
Case Studies

• Chief Clerk of Court – Large County in Georgia
  - Long-time civil servant
  - Elected Judge granted Chief Clerk full power to handle business of the court
  - Court held funds in a fiduciary capacity on behalf of beneficiaries of estates when third-party guardian/custodian was not legally able to
  - Chief Clerk would also siphon court revenues (copying fees, filing fees, etc.) into these fiduciary accounts
  - Chief Clerk writes checks to “Cash” and is able to cash at bank where she is a “well known customer”
From 2010 to 2014, over $800,000 in suspicious/questioned disbursements

Federal indictment

County along with banks are parties in several lawsuits filed by attorneys of beneficiaries
• What’s next?
  - Chief clerk pleads guilty to two of six counts on July 31, 2015
  - To be continued...
Government’s Response to Fraud Risks

- Effective fraud risk assessment
- Mitigate the risks
  - Internal controls over financial reporting
  - Internal controls over cash receipts and disbursements
  - Employee anti-fraud education
  - Anti-fraud policy
  - Reporting mechanism / whistleblower hotline and protection
Bitcoin Discussion
“Bitcoin is a consensus network that enables a new payment system and completely digital money. It is the first decentralized peer-to-peer payment network that is powered by its users with no central authority or middlemen. From a user perspective, Bitcoin is pretty much like cash for the Internet.”

– from Bitcoin.org

Note on capitalization:
- Bitcoin = the concept
- bitcoin = the individual unit, abbreviated BTC
GET SOME BITCOIN
Money for the 21st century. Bitcoin is borderless, fast and has no central point of failure.

BUY BITCOINS

CREATE A WALLET
Create a wallet for personal or business use and start accepting Bitcoin in minutes.

BUY BITCOINS
Buy bitcoin in your local currency and start enjoying secure online transactions.

NEWS
Read the latest news from the cryptocurrency industry.

LEARN MORE
Learn more about bitcoin, including how to save 30% at Amazon and Starbucks today.

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• 2007 – Idea conceptualized in Japan by Satoshi Nakamoto (possibly an individual, possibly a collective name for a group of people...)
• August 2008 – domain Bitcoin.org registered
• July 2010 – MtGox Bitcoin currency exchange market established
• February 2011 – Bitcoin reaches parity with US dollar
• March 2013 – Market cap exceeds $1 billion
From a user perspective, Bitcoin is nothing more than a mobile app or computer program that provides a personal Bitcoin wallet and allows a user to send and receive bitcoins with them.

All Bitcoin transactions recorded on public ledger called the “block chain”.

Bitcoins are stored in a digital “wallet” which exists on a user’s computer or on the cloud.

New bitcoins are created by “miners”, hundreds of computers/users around the world working together to process Bitcoin transactions.
Bitcoin – Fraud Concerns

- BitCoin. Org
- People might be able to link your identity to a transaction over time
- You may want to follow your country’s tax regulations regarding Bitcoin in order to avoid trouble with the law, but you have the power not to should you choose to take the risk
- To improve privacy, most newer Bitcoin wallets will use a new Bitcoin address each time someone sends bitcoin to you
While not completely “untraceable” according to Bitcoin.org, Bitcoin allows for certain anonymity that makes it desirable for illegal activities and money laundering.

- Example: Silk Road dark-net market
- Reports of ISIS advocating its use for terrorist financing
- ACFE column “Bitcoin and the Future of Bribery” describes scenario in which public officials or others could be paid bribes with a minimal trail of evidence.
Bitcoin – Governmental and Non-Profits

- United Way accepts donations in bitcoin as of September 15, 2014
- E-Gov Link (e-government suite of tools for municipalities) users can accept bitcoin as payment for numerous city services as of March 2013
- Many companies/entities “accepting” bitcoin actually enlist middleman such as Coinbase, who convert bitcoin to cash for a transaction fee
Value of one bitcoin in USD

$246.07 as of October 12, 2015
Regulation of BitCoin

- State level

- Federal level

- International level
  - Barclays, UK, MasterCard

- Hotly debated topic with both pros and cons for regulation
- Results – anyone’s guess!
Open Discussion

• Questions or comments?
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