



Office of the Comptroller

Thomas G. Shack III



September 30, 2016



Office of the Comptroller

Thomas G. Shack III

Our Mission:

We promote accountability, integrity, and clarity in Commonwealth business, fiscal, and administrative enterprises.



Office of the Comptroller

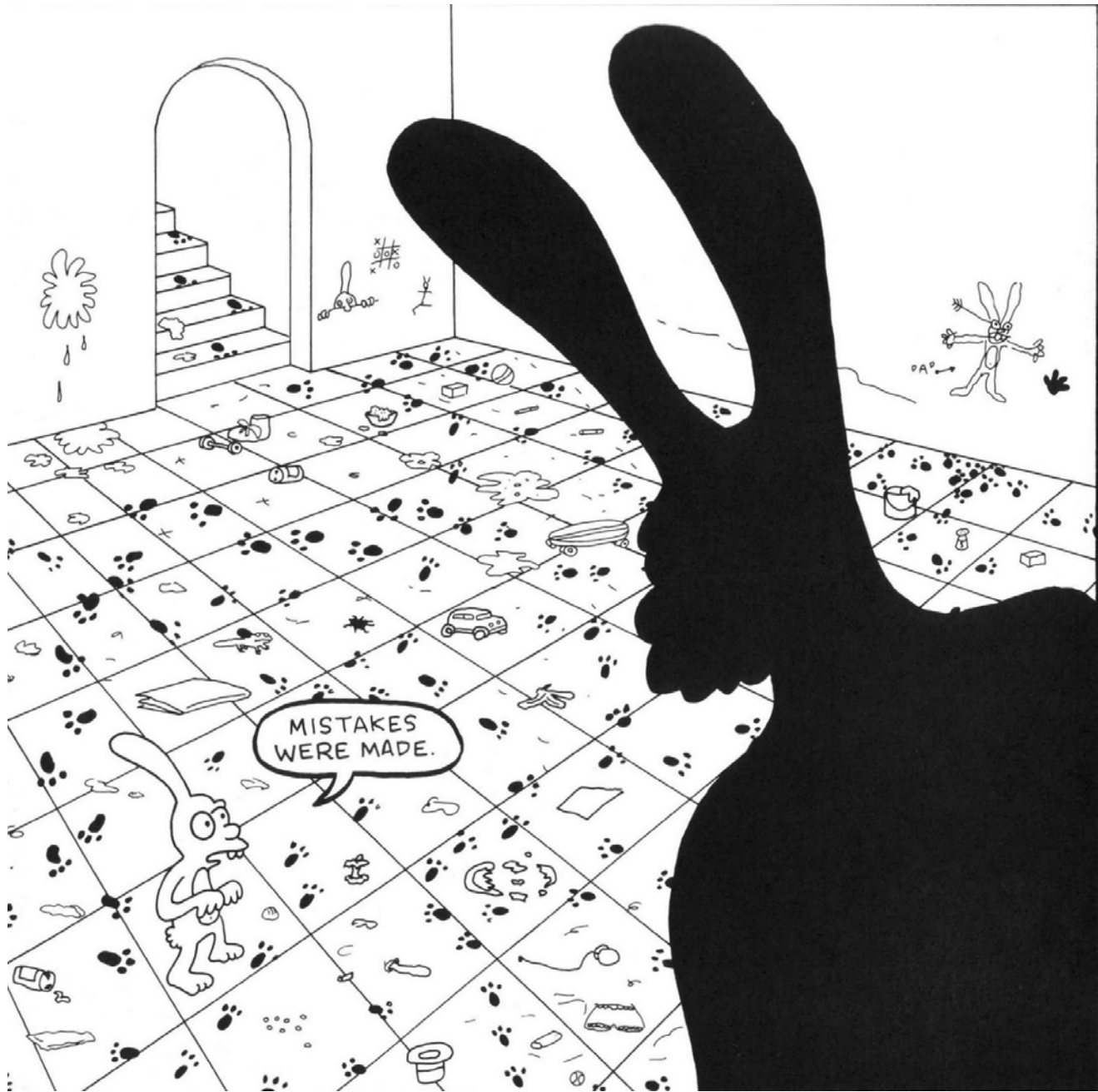
Thomas G. Shack III

- Independent overseer of statewide finance and operations, aka the referee of state government (G.L. c. 7A and c. 29) (815 CMR 10.00).
- Steward of MMARS and HR/CMS.
- Oversee statewide fiscal policy and the annual independent audits (SBFR, CAFR, and Federal Single Audit) of the Commonwealth.
- We account for more than \$60,000,000,000.



So Here We Are





We're All Employed Through Commonwealth







CCCC Mission Statement

Student success is the first priority at Cape Cod Community College. As a teaching and learning community, we provide opportunities and pathways that encourage students to achieve their goals. We enrich our unique region through our work, partnerships and students' achievements.







Tone at the Top

The atmosphere created at the top affects the attitude of all employees:

- Employees witness what their bosses are doing
- Zero tolerance for unlawful, unethical, or questionable behavior
- Reward employees for integrating personal and organizational loyalty
- Write It (Policies and Procedures, Memos)
- Communicate It (Meetings, Trainings)
- Demonstrate It (Lead by Example)



Ethics Statement / Code of Conduct

- **Define** the culture
- **Set** expectations
- **Remind** employees about their roles and responsibilities for maintaining an ethical work environment
- **Maintain** awareness of reporting mechanisms available to employees
- **Reinforce** the ramifications of improper or unacceptable behavior in order to deter others from similar actions

[State Ethics Mandatory Education and Training Requirements](#)



Segregation of Duties

Verify that segregation of duties are in place:

- Apply consistently across the agency and in all locations.
- Example - Reconciliation of balances and activities is performed by someone who does not report them.

If resource constraints prevent adequate segregation of duties:

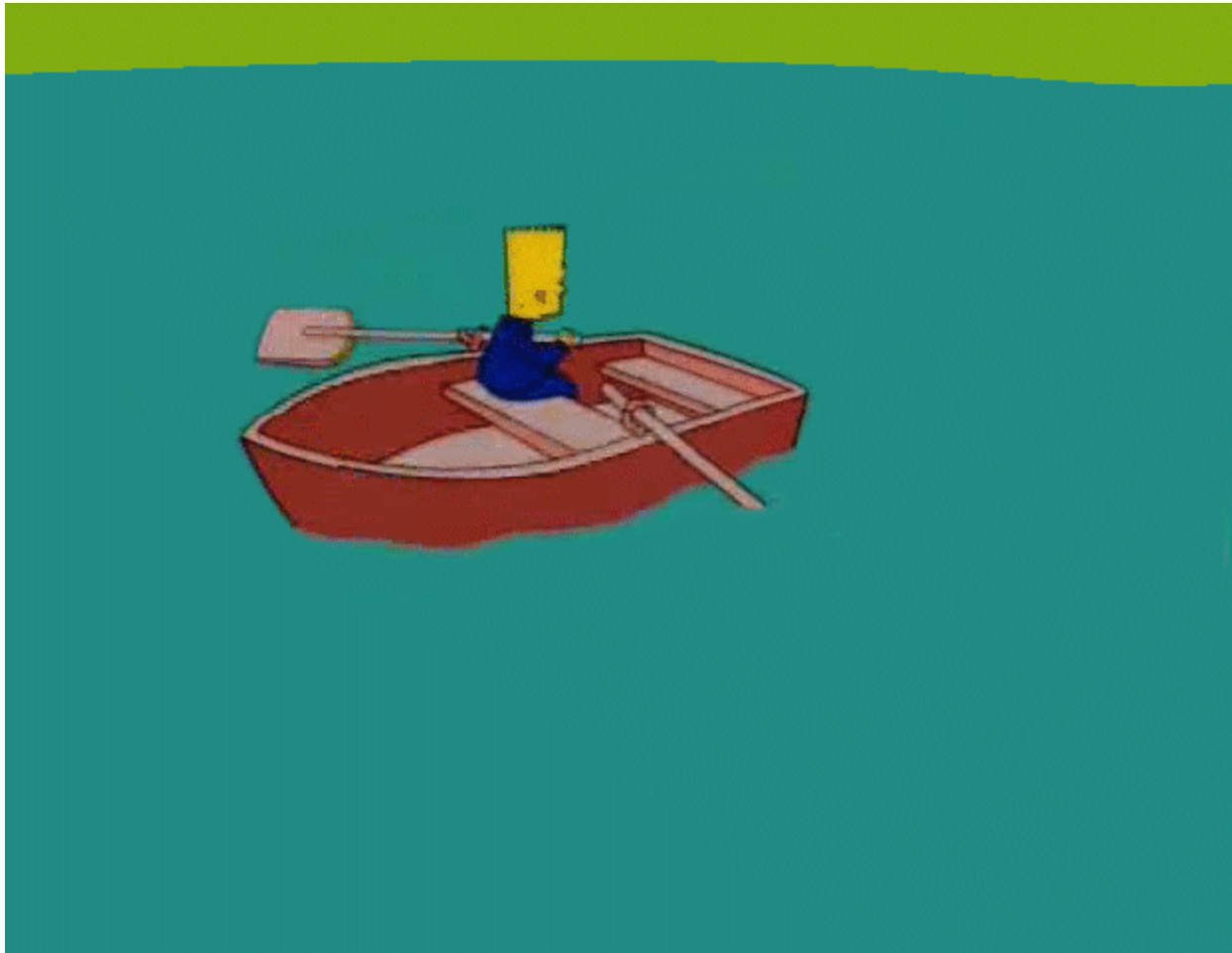
- Cross-train
- Job rotation
- Add additional sign off / review
- Think creatively; share duties with other areas / units / departments



Employee Screening

- Past Employment Verification
- Criminal Conviction Checks (CORI)
- Reference Checks
- Education and Certificate Verification
- Get the Consent of the Candidate

Without Internal Controls



Risk Management





3 Lines of Defense





1st Line

- Policies and Procedures
- Payroll Authorization
- User Access Reviews
- Daily Processes
 - Reconciliation
 - Procurement
 - Expenditures
 - Inventory/Capital Assets Management



2nd Line

- Signatory Authority
- Strategic Plan
- Internal Control Plan
- Segregation of Duties
- Management Oversight - Reconciliation
- System Access; User Roles

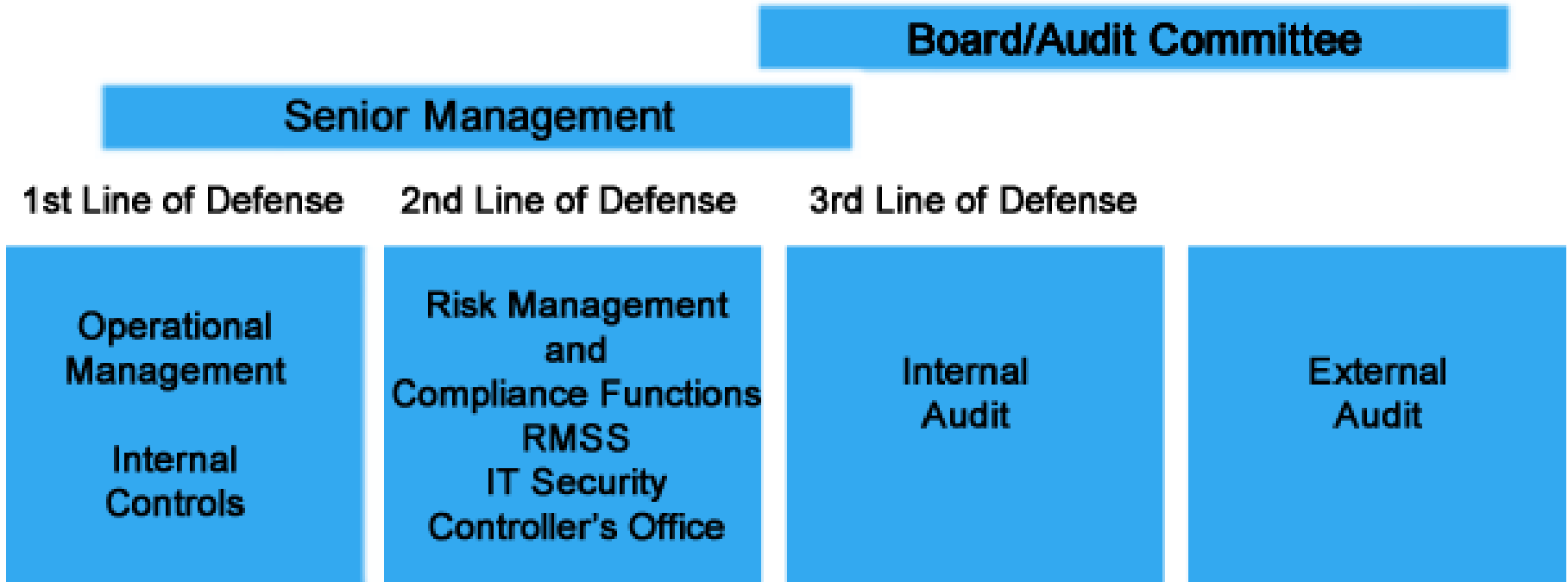


3rd Line

- Internal Audit
- Internal Control Questionnaire
- Monitoring
 - Performance Metrics
 - Strategic Plan
 - Internal Control Plan



3 Lines of Defense





Internal Control Plan (ICP) Example

Cape Cod Community College 2014 Strategic Plan

- Use as Basis for ICP
- ICP Updated Each Year of Strategic Plan
- Keeps Focus on Goal Achievement



Strategic Plan Goal 1:

Empower student success by
providing opportunities and
pathways to achieve their goals



Objective 1.1: Focus on improving student outcomes of retention, graduation and transfer:

Metric	Baseline	Target
Increase fall to fall retention 15%	Fall 2013 47%	Fall 2019 54%
Increase the 6 year ATD success rate 10%	Fall 2013 46%	Fall 2019 50.6%
Increase the annual graduation rates 15%, (part of ATD metric)	FY 2012 24%	FY 2019 28.3%
Increase student engagement 8%, as measured by an average of the 5 CCSSE benchmark scores	Spring 2011 50.46	Spring 2019 54.50



Link Risks and Controls to Objectives

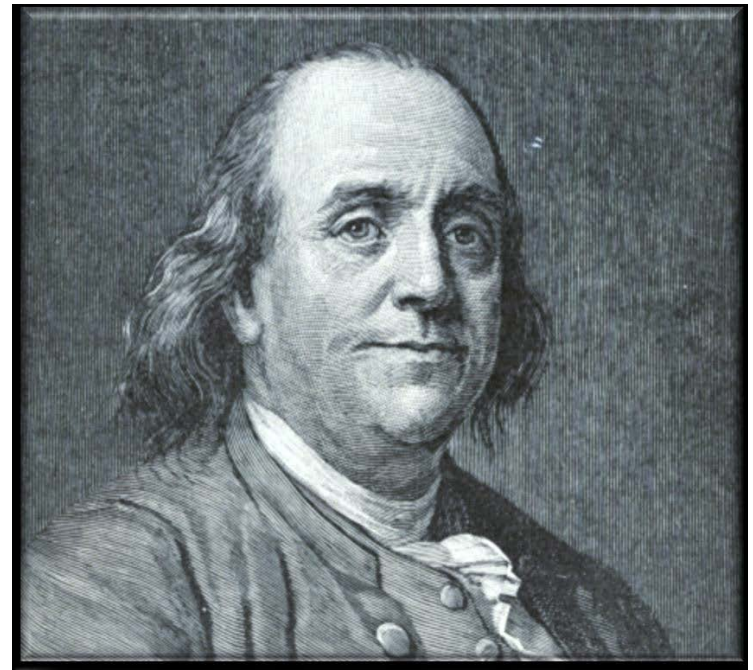
Objective	Risk	Control
Improve outcomes of retention by 15% by Fall 2019	Incoming students not prepared for college work	Provide remedial instruction
Improve outcomes of graduation		
Improve outcomes of transfer		



FRAUD WASTE AND ABUSE

“There is no kind of dishonesty into which otherwise good people more easily and more frequently fall than that of defrauding the government.”

-Ben Franklin





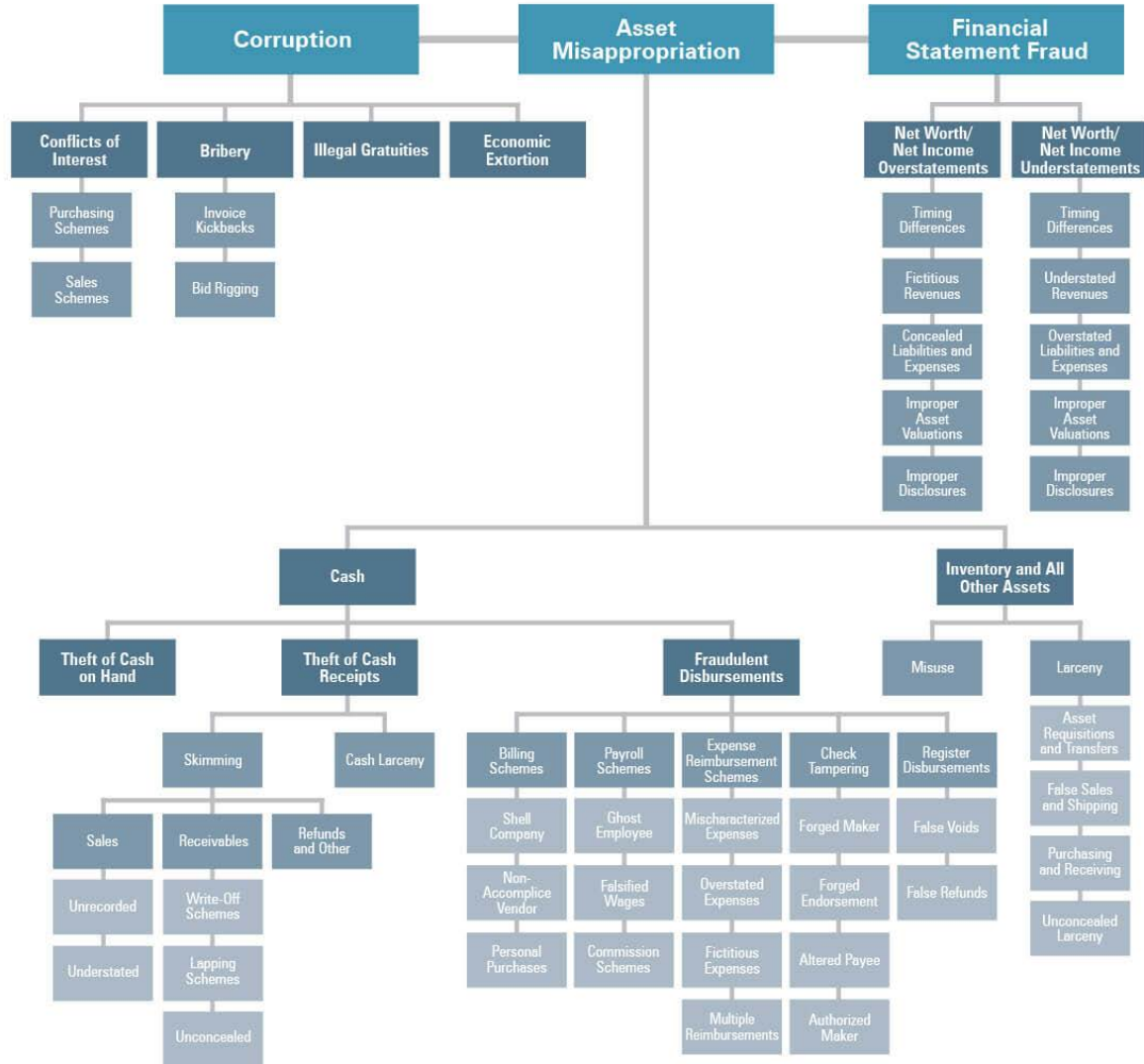
What is Fraud?

- Any intentional illegal acts characterized by deceit, concealment, or violation of trust
- Frauds are committed by individuals and organizations to:
 - obtain money, property, or services
 - avoid payment or loss of services
 - secure personal or business advantage

Source: *The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing.* www.theiia.org

THE FRAUD TREE

OCCUPATIONAL FRAUD AND ABUSE CLASSIFICATION SYSTEM

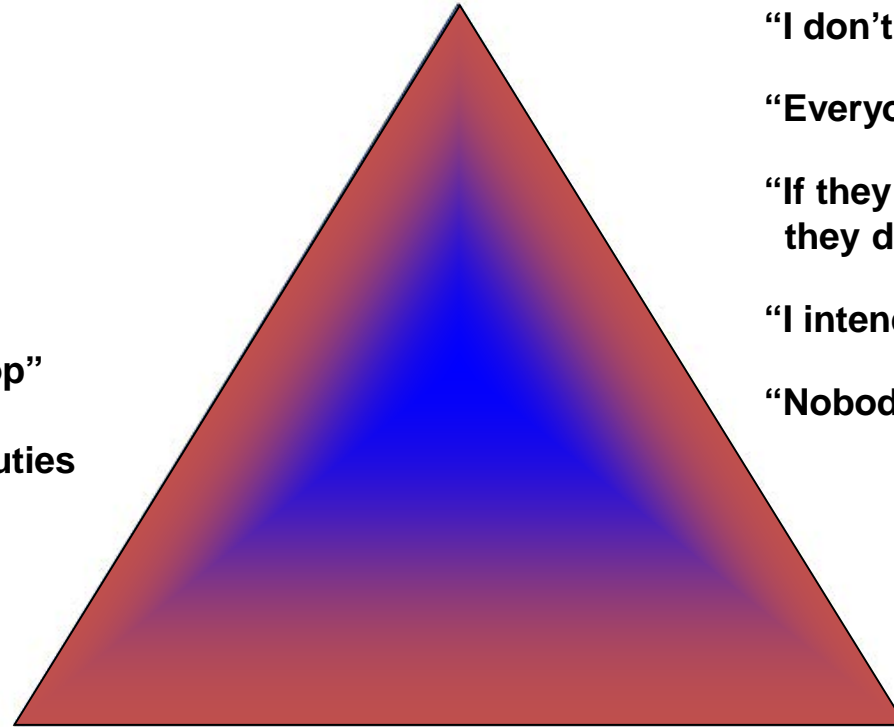




The Fraud Triangle

Opportunity:

- Internal Controls
 - None in place
 - Un-enforced
 - Un-monitored
 - Ineffective
- Too much trust
- Poor “Tone at the Top”
- No segregation of duties



Rationalization:

- “I don’t get paid what I am worth!”
- “Everyone else is doing it”
- “If they don’t know I’m doing it, they deserve to lose the money”
- “I intended to pay it back”
- “Nobody will miss the money”

External Pressure / Motivation:

- Debt, Greed
- Lifestyle Needs
- Illicit Activities: Vices, Gambling, Drugs
- Life Pressures

Internal Pressure / Motivation:

- Pressure to Perform
- Too Much Work



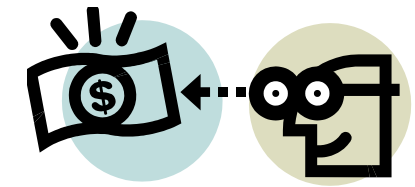
10-80-10 Rule

The 10-80-10 “rule” refers to a general assumption of the breakdown of the population and the likelihood of fraud occurrences:

- **10%** of the population will NEVER commit fraud. This is the type of person that will go out of their way to return items to the correct party
- **80%** of the population might commit fraud given the right combination of **opportunity, pressure, and rationalization**
- **10%** of the population are actively looking at systems and trying to find a way to commit fraud



Money? + People? = Fraud





Who commits fraud?

- People outside the organization
- People in positions of responsibility with the ability to override controls
- Often trusted and respected employees
- People with an understanding of the organization's controls and processes
 - “Inside Jobs” are e





Average life of a fraud

- Average duration of 24 months⁺
- 91 percent of perpetrators did not stop at one single fraudulent transaction*



⁺Source: Association of Certified Fraud Examiners 2008 Report to the Nation on Occupational Fraud & Abuse. www.acfe.com

*Source: [Profile of a Fraudster Survey 2007, KPMG](#)



What We Typically Do Not See In Media

NEW ENGLAND'S GENERAL EXCELLENCE WINNER

CAPE COD TIMES

**Internal Controls
Followed!**

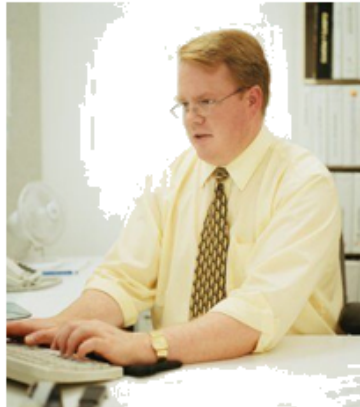
Story Page 2

**Management
Segregates
Duties!**

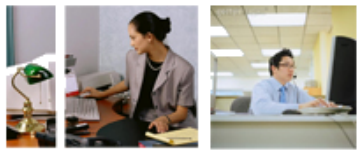
Everyone went home happy; content that they gave their best. No mistakes were made. All work was completed. I love my job. I've never known a better boss. I feel like I'm overpaid and under worked because quite frankly, I'd do this for free!



According to no one 47.9% of all statistics are made up on the spot. From this we have ascertained that 70% of all statistics are made up on the spot were read by 64% of people that produce false statistics 54% of the time they produce them.



**MOST STATE
EMPLOYEES
HAVE A
PRODUCTIVE
DAY**



WAVYWOOD. Carl, Richard Phillips is safe aboard the USS Siskiwitawag yesterday after New sailors dramatically rescued the hero seaman, who was held captive for five days by Somali pirates.

**"Kevin was a few minutes
early today and did a
fine job" says boss.
Ticker Tape Parade
Set for Saturday**

Complete Coverage Pages 3-5



Consequences of Fraud - Damage to Public Image / Reputation

- Traditional News Media

- Newspapers
- TV
- Radio



The Boston Globe

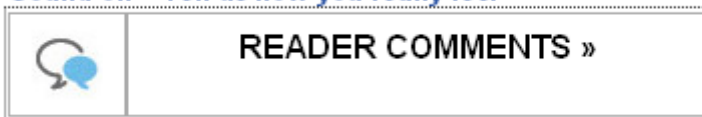


- Electronic Word of Mouth

- Twitter
- Facebook
- Blogs
- Message Boards

– Globe & Herald

Sound off – Tell us how you really feel





Consequences of Fraud- Financial Cost

- Losses estimated to be 7 percent of revenue*
- Loss of assets
- Potential loss of future funding
- Potential fines, repayment of funding

**Source: Association of Certified Fraud Examiners 2008 Report to the Nation on Occupational Fraud & Abuse. www.acfe.com*



The General Laws of Massachusetts

PART I. ADMINISTRATION OF THE GOVERNMENT

TITLE III. LAWS RELATING TO STATE OFFICERS

CHAPTER 29. STATE FINANCE

**Chapter 29: Section 66. Violation of state finance laws;
penalties**

Section 66. Any officer or employee who knowingly violates, authorizes or directs another officer or employee to violate any provision of this chapter, or any rule or regulation promulgated thereunder, or any other provision of law relating to the incurring of liability or expenditure of public funds, shall be punished by a fine of not more than one thousand dollars or by imprisonment in a jail or house of correction for not more than one year, or both.

RED FLAGS





Do you have....?

- Large amounts of cash in hand
- Small items with a high cash value (laptop, thumb drive, Blackberry)
- Easily convertible assets (tools, vehicles, PII)
- Lack of segregation of duties
- Management with ability to override
- Managers and Employees with access to significant assets
- Poor physical safeguards over cash and other assets
- Lack of mandatory time off for employees performing key control functions
- Inadequate supervision, especially where employees are in remote locations
- Too much information on your website

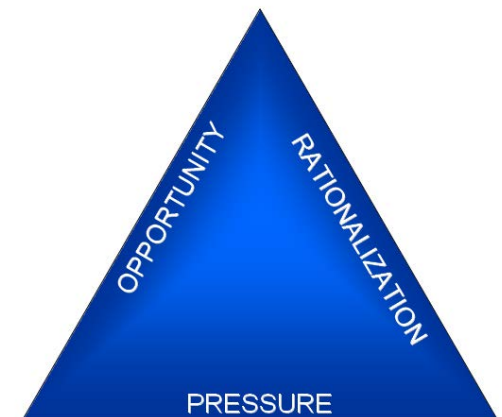


Do you have....?

Lack of segregation of duties

Same person:

- Opens mail with checks
- Records checks received
- Prepares bank deposit
- Deposits money into bank
- Reconciles bank statements

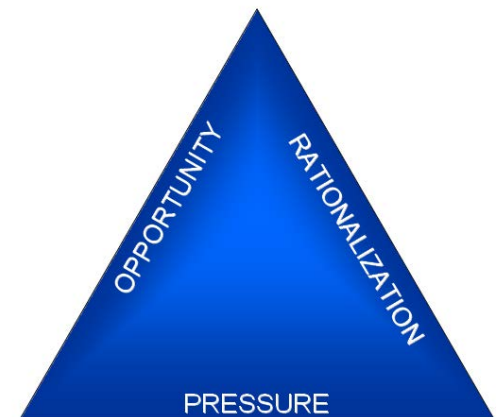




Do you have....?

Resource Constraints

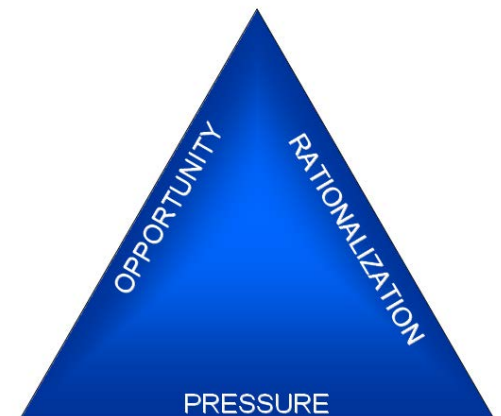
- Not enough staff to perform the current work
- Not enough staff to supervise work performed
- Lack of funds for monitoring tools
- Lack of staff time to devote to anti-fraud activities





Do you have....? Times of change

- Change in leadership
- Reorganization
- Layoffs
- Upgrades / Promotions
- New programs without new resources



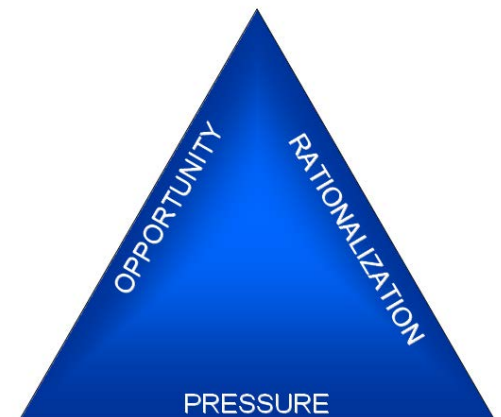


Do you have....?

External Pressure on Employees

Recognize and acknowledge the pressure when possible.

- Financial Issues (Mortgage, Student Loans)
- Medical Bills
- Divorce
- Child Support

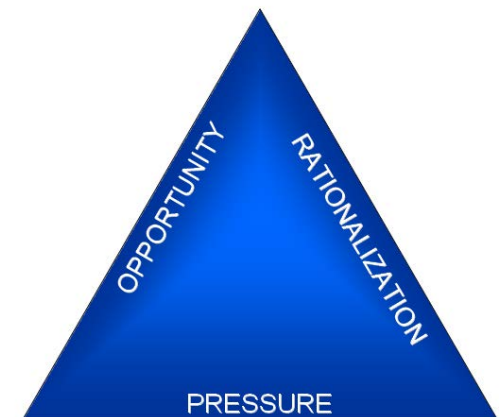




Do you have....?

Changes in Employees Behavior

- Unwilling to take vacation / time off
- Working off hours: early, late, weekends
- Refusing promotion to a different area
- Overly protective of information and reluctant to train others
- Social relationship with vendor
- Change in lifestyle, suddenly living beyond means





Risks, Red Flags and Controls

Risk	Red Flags	Controls
Fraudulent billing	Fraudulent invoices Mischaracterized expenses (personal vs. business) Inflated billing Double billing Lack of proof of delivery Equipment / people not on jobsite	Site inspections Confirmation of delivery
Product substitution	Complaints about quality Poor quality construction Lack of inspection False inspection report Allegations of bribery of inspectors	Adequate project monitoring and oversight Independent testing Agency verification of inspection reports



Risks, Red Flags and Controls

Risk	Red Flags	Controls
<p>Collusive bidding, price fixing or bid rigging</p>	<p>Apparent connections between bidders: common addresses, personnel, or telephone numbers</p> <p>Different contractors make identical errors on bids.</p> <p>Tailored Specifications (e.g., specific or restrictive requirements in files which seems to restrict eligibility)</p> <p>Similar pricing</p> <p>Consistently high pricing</p>	<p>Adequate vendor pre-screening</p> <p>Independent price verification and pricing analysis</p>
<p>Conflict of interest</p>	<p>Apparent connections between employees and vendors:</p> <ul style="list-style-type: none">▪Common addresses or telephone numbers▪Tax ID▪Ownership interest <p>Unnecessary purchases</p> <p>Sole source justification</p>	<ul style="list-style-type: none">▪Adequate vendor screening▪Data analysis / tools▪Formal procurement process▪Codes of conduct

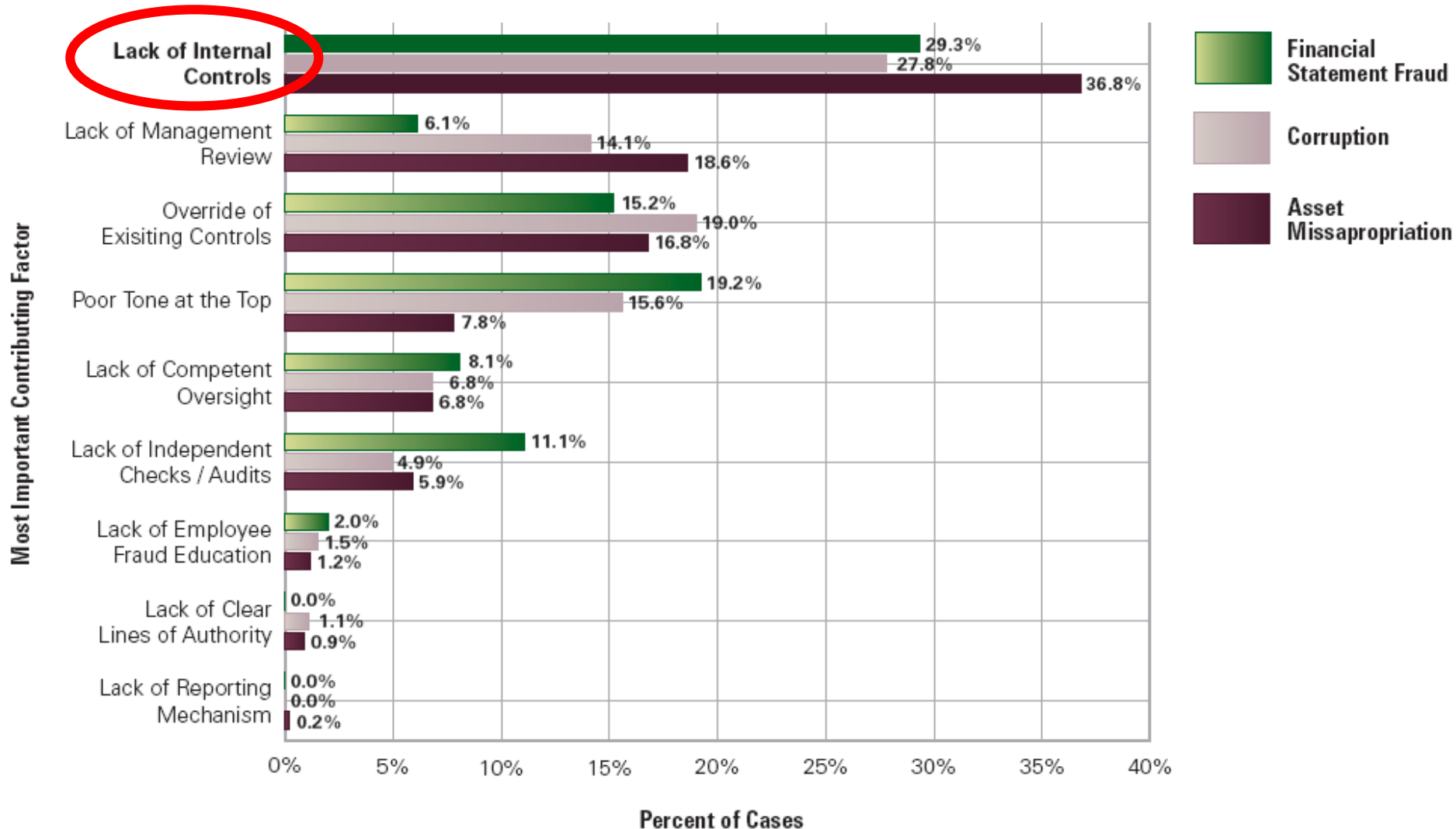


Risks, Red Flags and Controls

Risk	Red Flags	Controls
Falsified wages	Large or unusual overtime payments to selected employees Large or unusual hours worked in a given pay cycle Time card hours differ from job order hours Hours on payroll reports differ from time-card hours or job order Number of days worked and amount of salary are inconsistent with occupation	Review of supporting documents Adequate time tracking mechanisms Authorization and approval of hours worked Multiple sources of information
Social Engineering	Unexpected inquires from unverified callers	Verification identity with organization Develop a procedure for dealing with information requests and the type of information you can and cannot give out



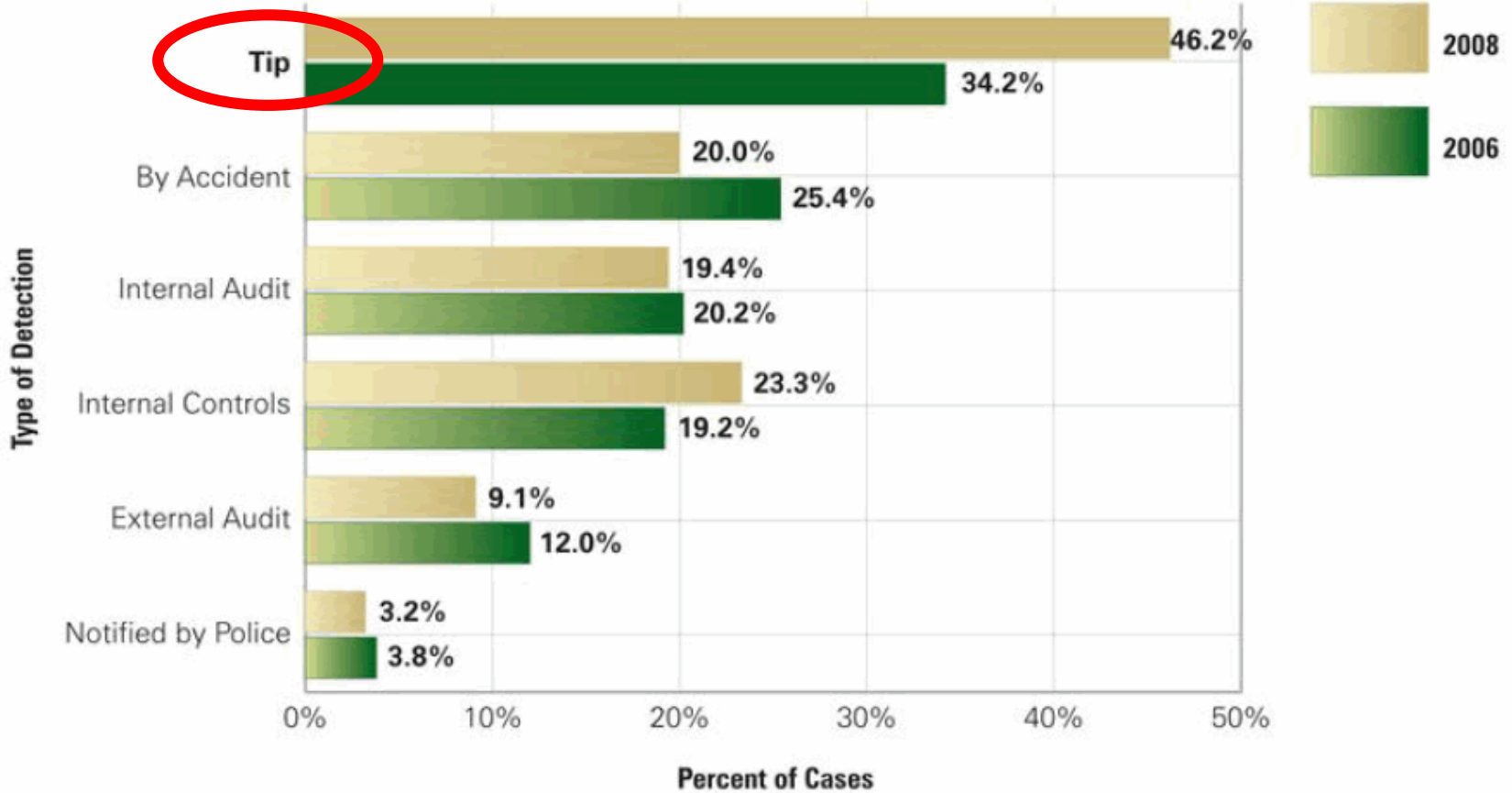
Most Important Contributing Factor to Fraud



Source: Association of Certified Fraud Examiners 2008 Report to the Nation on Occupational Fraud & Abuse. www.acfe.com



Initial Detection of Fraud



Exceeds 100% as single instances may span different Detection Methods

Source: Association of Certified Fraud Examiners 2008 Report to the Nation on Occupational Fraud & Abuse. www.acfe.com



Reconciliation

Let them know someone is watching and checking!



- Bank statements
 - Review all documentation and reconciliations for unusual entries or deviations from programmatic purposes
 - Check for corrections and amounts that appear too high or low
 - Flag and review all management overrides
 - Spot check for round numbers or multiple payments in same cycle for same amount/same recipient (absent a lease or recurring payment)
- DocDirect Reports
 - Payroll Reports
 - Receivables
- Monthly Equipment / Supply Inventory



Data Analysis

- Don't be a "D.R.I.P." = Data Rich, Information Poor
- Detect anomalies, trends, risk indicators
For example, Multiple payments to the same vendor in a month.
- Continuous auditing (monitoring)
- Exception reports
- User activity reports
 - Look for activity from an unexpected user
 - Is the same employee creating and submitting:



The same document?

Encumbrances and payment documents?



Fraud Risk Assessment Template

Chart it out: [Managing the Business Risk of Fraud: A Practical Guide](#)

- Fraud Risk
- Likelihood
- Control Activity
- Scheme / Scenario
- Significance
- Control Type
- Potential People Involved
- Inherent Risk

Example A:

Identified Fraud Risks and Schemes (1)	Likelihood (2)	Significance (3)	People and/or Department (4)	Existing Anti-fraud Controls (5)	Controls Effectiveness Assessment (6)	Residual Risks (7)	Fraud Risk Response (8)
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Example B:

Owner	Fraud Risks	Controls	Monitoring	Likelihood	Impact
Construction Department	Design & build defects (inferior material used & construction not performed per specifications). • Reputation risk (injury or fatality at site).	<ul style="list-style-type: none"> • Execute construction contract with detailed scope of work (specifications). • Periodic site visitations by architects, local building inspectors, engineers, commission agents, and owner's construction representatives are made to ensure job is on schedule and built per specifications and code. 	<ul style="list-style-type: none"> • Construction Department • Legal • Internal Auditing 	M	H



Available Web Resources:

