MF▮PS

Your Firewall Against Fraud

Municipal Fraud Prevention Services

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Municipal Fraud Prevention Services of Alabama

A program to educate personnel, evaluate vulnerability, and present a hardened target to fraudsters

Agenda

➢ The nature and evolution of fraud today

➢ Summary of 2016 Municipal Fraud

➢ Selected Case Studies

➢ MFPS: What we do

The nature of fraud today

- Prevalence
- Examples
- Why municipalities?
- Education and controls

Prevalence of fraud today

According to the Association for Financial Professionals, 62% of companies were targets of payments fraud in 2014

➢ According to the Association of Certified Fraud Examiners' (ACFE)2016 study, typical organizations lose 5% of revenues each year to fraud, even without a major fraud event

➢ Frauds involved average loss of $2.7MM, median loss of $150,000 and 23% of them were over $1,000,000

➢ Government and Public Administration is the second most victimized sector, accounting for 10.5% of all cases and with a median loss of $80,000 for local government entities

➢ At least 170 cases and $180,103,400 in 2016
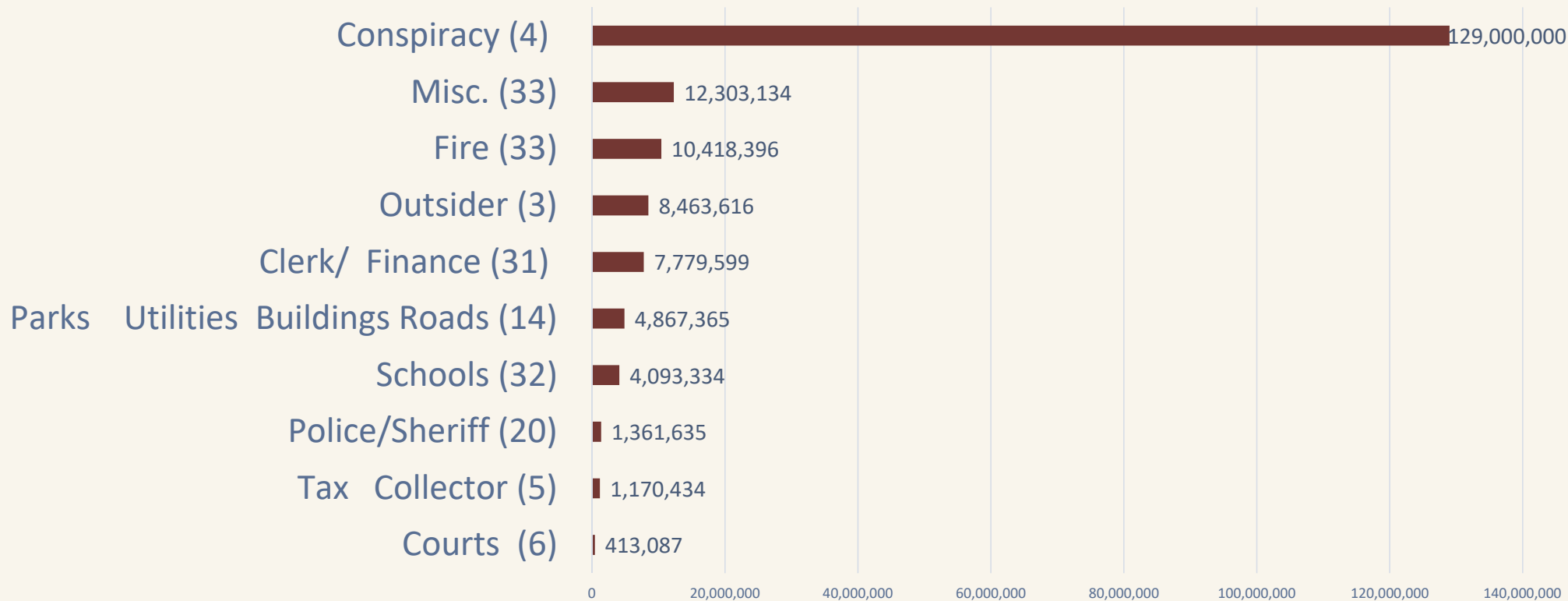
Examples..... one week in April 2014

➢ *Cybercriminals add new component to Sality to hijack DNS addresses of routers*

➢ *ISPs exposed to DNS DDoS attached due to million of vulnerable home routers*

➢ *Passwords, messages of 158K+ Boxes.tv users leaked*

➢ *Cybercriminals abuse security camera recorders and routers to mime for Bitcoins*

➢ *Two U.S. hackers admit to international cyber crime in NJ court*

➢ *Middle Eastern hackers use remote access Trojan to infect 24,000 machines worldwide*

➢ *Smartphones at risk of malicious code injection through HTML5-based apps*

➢ *Uncommon new worm targets Word and Excel files*

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2016 Losses by Department (number of cases)

Department	Loss
Conspiracy (4)	129,000,000
Misc. (33)	12,303,134
Fire (33)	10,418,396
Outsider (3)	8,463,616
Clerk/ Finance (31)	7,779,599
Parks Utilities Buildings Roads (14)	4,867,365
Schools (32)	4,093,334
Police/Sheriff (20)	1,361,635
Tax Collector (5)	1,170,434
Courts (6)	413,087

0   20,000,000   40,000,000   60,000,000   80,000,000   100,000,000   120,000,000   140,000,000
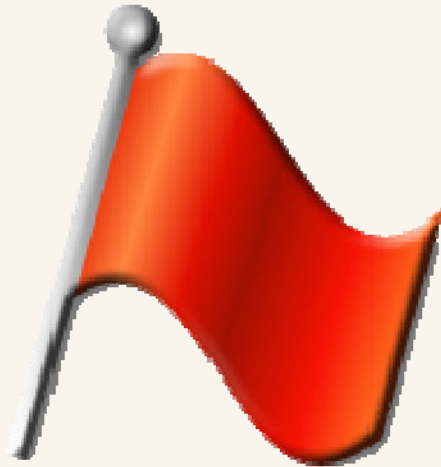
But why target municipalities?

- High value accounts
- Bonding
- Zero Budgeting
- No employee theft insurance
- Have the ability to move money quickly
  - Wire Transfers
  - ACH
- Municipal computers represent a target rich environment for other valuable information

Education and controls

How secure are your checks and accounts?

What do you do to prevent fraud?

Are you losing revenue to fraud?

Are your vendors legitimate?

Questions to Ask

Are you aware of phishing attempts?

Do you stay informed about fraud trends?

How do you protect city data and systems?

Embezzlement – Red Flags

- ✓ Living beyond their means
- ✓ Financial difficulties
- ✓ Unusually close association with vendors or customers
- ✓ Excessive control issues
- ✓ Little vacation taken
- ✓ … and some times not

Preventing Embezzlement/Bookkeeper Fraud

➢ DUAL CONTROL! Separation of duties!

➢ Never sign blank checks

➢ Establish dual control for check issuance and account reconciliation tasks, separation of

➢ Make sure all employees are aware of and adhere to internal controls and financial reporting

➢ Restrict employee access to accounting systems and online functions; audit periodically

➢ Implement and follow an approval process for new vendors

➢ Account statements delivered to person who does not reconcile

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Case Studies

BEC: As of Sept. 2016, over $3.1 billion in international losses(FinCEN)

UNCLASSIFIED

Public Service Announcement

FEDERAL BUREAU OF INVESTIGATION

August 27, 2015

Alert Number

I-082715a-PSA

Questions regarding this PSA should be directed to your local **FBI Field Office.**

BUSINESS EMAIL COMPROMISE

This Public Service Announcement (PSA) is an update for the Business E-mail Compromise (BEC) PSA I-012215-PSA posted on www.ic3.gov and includes new information and updated statistical data as of August 2015.

DEFINITION
Business Email Compromise (BEC) is defined as a sophisticated scam targeting businesses working with foreign suppliers and/or businesses that regularly perform wire transfer payments. The scam is carried out by compromising legitimate business e-mail accounts through social engineering or computer intrusion techniques to conduct unauthorized transfers of funds.[1]

BEC: El Paso, TX

➤ This scheme is the best example to date of how fast and effectively schemes evolve today

➤ El Paso had a large, publicized, ongoing streetcar project

➤ At the last second, the payment information to their vendor was changed

➤ Officials confirmed it began with a phishing attack

➤ $3,200,000. Recovered $292,000 of $300,000 and almost $1,600,000 of $2,900,000, but this is unusual!

Neshoba County, MS

➢ Conspiracy amongst Bookkeeper, Purchasing Clerk, and Payroll Clerk

➢ $13,000,000

➢ Entered into a conspiracy to approve and cover overtime payments to each other

➢ Scheme was carried out over 6 years

➢ $4,333,333 per conspirator over the life of the scheme and $722,222 per conspirator per year?

Placentia, CA

➢ A Deputy Chief in the City Treasurer's Office stole $5,160,000.

➢ Hid thefts by altering ledgers

➢ Was caught wiring funds to a Las Vegas casino

➢ A city council member, when blamed by citizens and insiders for failing to catch the scheme "threw a fit" in city hall and later in a council meeting, complaining loudly that Bank of America, 2 audits, and the entire city staff failed to identify the scheme and put a stop to it

➢ Established procedures for release of wires were not followed

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What we do:

➤ A comprehensive program provided by fraud experts to prevent fraud

➤ **Education:** We conduct a 2-hour fraud prevention and awareness seminar for employees. The seminar "deputizes" your employees to assist leaders in fraud recognition and prevention. This kind of training is now required in some areas

➤ **Risk Analysis:** We send questionnaires to key leaders to learn ahead of time what questions they have, what they see as areas in need of attention, and what procedures are currently being followed. We then visit on-site and document what is actually taking place in daily operations

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What we do

➤ **<u>Report/Strategic Plan:</u>** We provide a professional quality comprehensive report documenting our review and our recommendations for strengthening client operations. We meet with stakeholders to obtain feedback and explain suggestions.

➤ **<u>Implementation:</u>** We remain available, both via phone consultation and on-site to assist with implementation of our recommendations. We will assist with creating new policies and procedures as needed.

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Questions?