

Detecting and Preventing Fraud and Kickbacks

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Detecting and Preventing Fraud and Kickbacks

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Disclaimer

- This session is being recorded for future use.

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Our Agenda

- Overview
- At-risk areas
 - Cash
 - Contractors
 - Employees
 - Inventory / Supplies
 - Competitive Bidding

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It Happened Before....

- Not “Will it happen again?”



Rather “*When* and *where* will it happen again?”

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Preventing Fraud and Kickbacks

- The best way to reduce the risk....



LET THEM KNOW YOU ARE WATCHING !!!

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Detecting Fraud and Kickbacks

- Monitoring
 - Prevention
 - Awareness that someone is watching
 - Detection
 - What can happen?
 - What should be checked?

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CB **Industry** 

- Volunteer board members
 - Limited time for involvement
 - Varying knowledge and expertise
- Reliance on property managers or managing agents
 - No longer direct involvement in running the business
 - Should be some review or monitoring process

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CB **Industry** 

- Limited use of written policies and procedure manuals
- Unit owners' expectations higher than a business owner or investor

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CB **History**

- Attorney General indictments for bid rigging and kickbacks
- Recent embezzlement



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CB **Has Your Building Considered.....?** 

- Written Code of Ethics
 - Board Members
 - Property Manager
- Conflict of interest policy
- Controls over confidential data
- Gift policy
- Written policies and procedures


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CB **Are Controls in Place?**

- What should happen if policies and procedures not followed?
- How should fraud or kickbacks be reported? To whom?



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CB **Risk** 

- Consider where your property has risk of fraud, theft or kickbacks?
- When did your board last review the risks and policies to protect itself?

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Fraud, Theft and Embezzlement

- Motive
- Opportunity

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Fraud, Theft and Embezzlement


- Which areas are at risk
- How it can be done
- How to prevent / detect it



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Cash




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- What can happen:
 - Pocketing income
 - Paying personal / improper bills

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Cash




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- How it can be done:
 - Miscellaneous income not recorded on books and checks/cash pocketed
 - Payments made to fictitious vendors
 - Personal bills / another building's bills paid
 - Payee name changed / adjusted
 - ("American" becomes personal "American Express")
 - Duplicate or inflated payment

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Cash




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- Some warning signs:
 - Commingling of funds with other properties
 - Liens on building
 - Vendors sending demand for payment or appearing at building
 - Tax notices
 - Expenses rising inappropriately
 - Accounts payable growing

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Cash



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- Controls should be in place:
 - Approval process over a certain amount prior to expenditure
 - Approval of all bills before paid
 - Voided check procedure
 - Procedure to account for all check numbers

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Cash

■ **Controls should be in place:**

- Budget comparison *
 - Check that actual amounts are reasonable based on budget
 - Look for variances
 - Look for over-budget non-recurring expense categories




* One of the three absolute rules to follow 19

Cash

■ **Monitoring (what to check):**

- Bank Reconciliation
 - Starting point for cash items
 - Roadmap for things to check



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BANK RECONCILIATION
AS OF 08/31/2011


OPENING BOOK BALANCE	8/01/11	210,564.39
ADD: CASH RECEIPTS		129,414.78
LESS: CASH DISBURSEMENTS		84,657.75
CLOSING BOOK BALANCE	8/11	255,321.42
ADD: OUTSTANDING CHECKS		25,169.51
ADJUSTMENTS		602.00
ADJUSTED BOOK BALANCE	8/31/11	281,092.93
BALANCE AS PER BANK STATEMENT		281,092.93

(Large red numbers 1-7 are overlaid on the table rows)

Bank Reconciliation

1 – Cash Receipts

- Check to total receipts on rent roll
 - If different, ask for explanation (miscellaneous income, etc.)
 - Scan for large arrears
 - Consider independently verifying
- Check to ledger
 - Should match
- Is miscellaneous income you are aware of reported?




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Bank Reconciliation

2 – Cash Disbursements

- Check amount to cash disbursement
 - If different, ask for explanation
- Check to ledger
 - Should match




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Bank Reconciliation

2 – Cash Disbursements

- Trace random transaction(s) from cash disbursements to paid bill
 - Look at approval
 - Look at payee
 - Is it a legitimate invoice?
 - Is it for your property?
 - If check is returned:
 - look at payee, amount, signature and endorsement



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Bank Reconciliation

CB 3 – Closing Book Balance

- Confirm that it matches ledger



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Bank Reconciliation

CB 4 – Outstanding Checks

- Scan list for checks remaining from prior month's outstanding list
 - Generally, checks should clear quickly
 - Is there a cash problem causing checks to be written and held?
- Scan for large amounts



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Bank Reconciliation

CB 5 - Adjustments

- Generally this should only have bank items from current month
 - Items not recorded on books that came through the bank during the month
 - Service charges
 - Adjustments to deposits
 - Bounced checks
- Should be entered on books or resolved within a month
 - If items are not being resolved, why?



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Bank Reconciliation

CB 6 – Adjusted Book Balance

- If this line is on the bank reconciliation, is it the same as the "Balance as per bank statement"?



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Bank Reconciliation

CB 7 – Balance as per bank statement

- Does this amount agree to the bank statement's closing balance?



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Bank Reconciliation

CB General


- Check the bank reconciliation, including outstanding checks and adjustments, and make sure that all totals are correct



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CB **Cash** 


- Monitoring (what to check):
 - Payroll Taxes
 - Unless service automatically debits taxes, periodically check tax payments to be sure they are being made
 - Consider treasurer having access to all online tax accounts

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CB **Cash** 


- Monitoring (what to check):
 - Accounts Payable
 - Are outstanding bills climbing?
 - Any unusually large balances?
 - Any vendors with a significant number of invoices outstanding?
 - Any very old unpaid bills?

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CB **Cash - Reserves** 


- Controls should be in place:
 - Transfer funds for approved bills
 - Pay actual bills through operating account
 - More likely to be properly recorded
 - Easier to trace
- Monitoring (what to check):
 - Look at statements on a regular basis
 - Are transfers appropriate?

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CB **Cash** 

- Important Reminder!
 - A Board member should be signatory on all accounts

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CB **Cash – “Positive Pay”** 

- Consider your bank’s “Positive Pay” system, if available
 - Transmit file that reflects checks written
 - Bank verifies presented checks against information before paying them

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CB **Contractors**

- What can happen:
 - Paying personal bills
 - Paying for work not done
 - Paying improper bills / fictitious vendors




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CB Contractors




- How it can be done:
 - Fake bills are submitted for payment
 - Bills can be overinflated
 - More expensive contractors can be used

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CB Contractors


- Some warning signs:
 - Significant increase in use of outside contractors without explanation
 - Increases in expenses such as plumbing, painting, etc. without a valid reason
 - Constantly using the same contractor without discussion or getting other pricing



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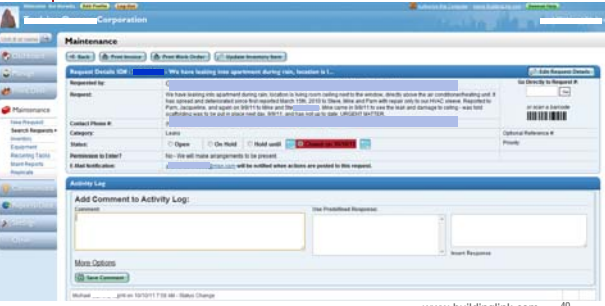
CB Contractors

- Controls should be in place:
 - System for recording all work requests
 - Include reason for outside contractor
 - Means for confirming time spent by contractor
 - Punch clock
 - Sign in and out



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CB Electronic Reporting System



www.buildinglink.com 40

CB Contractors

- Monitoring (what to check):
 - Randomly review bills
 - Was work actually done?
 - Match bills to work done
 - Is the amount of time billed reasonable for the type of work?
 - Is the bill from a legitimate company or does it appear to be a "homemade" bill?



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CB Employees

- What can happen:
 - Improper overtime
 - Fictitious employees
 - Theft of time




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CB **Employees**


- How it can be done:
 - Someone other than employee punches the clock
 - Person handling payroll creates fictitious employee and cashes checks
 - Working on personal jobs on building time



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CB **Employees**


- Some warning signs:
 - Payroll increases unreasonably
 - Overtime greater than 8% of payroll
 - Building work not done
 - Cleanliness suffers
 - Porter unavailable
 - Door staff not where they should be
 - Super or handyman unavailable during normal hours



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CB **Employees**


- Controls should be in place:
 - Time clock
 - Possibly under timed video surveillance
 - Segregation of payroll submission from supervision
 - Authorization process for overtime
 - Who can approve it?
 - Are at least two people involved in adding any new employees?



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CB **Employees**

- Monitoring (what to check):
 - Periodically scan payroll reports
 - Look for "ghosts on the payroll"
 - Ask about overtime
 - Compare payroll employees to union report



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CB **Inventory / Supplies**

- What can happen:
 - Supplies can disappear
 - Excess supplies can be purchased
 - Supply costs too high



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CB **Inventory / Supplies**


- How it can be done:
 - Employees can remove supplies from unlocked supply cabinet/area
 - Supplies can be taken for:
 - Personal work on premises
 - Personal use
 - Supplies can be purchased and shipped elsewhere
 - Personal supplies/items on reimbursed credit card



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CB **Inventory / Supplies** 

- Some warning signs:
 - Supplies cost goes up
 - Supply orders are higher in amount
 - Consistent use of supplier without price checking
 - Reimbursements to staff members or frequent payments to a credit card


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CB **Inventory / Supplies**

- Controls should be in place:
 - Maintenance request / Work orders with supply requisition / Purchase orders
 - Supplies locked up
 - Board approval on credit card payments or reimbursement to a staff member
 - If costs equivalent, periodic switching of supplier
 - Segregation of duties



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CB **Inventory / Supplies** 

- Monitoring (what to check):
 - Inquire about price checking
 - Periodically look at supply bills
 - Look for items that could be personal
 - Look for unusually large quantities
 - Annually review recurring services, supplies and contracts

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CB **Competitive Bidding**


- What can happen:
 - Bid Rigging
 - Kickbacks



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CB **Competitive Bidding**

- How it can be done:
 - Bids opened by one person who tells another contractor the lowest price
 - Board is nudged toward the contractor that agent wants selected. In exchange, contractor pays agent.



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CB **Competitive Bidding**

- Some warning signs:
 - Multiple additions that "were not included in the price"
 - Bids and pricing dealt with without board involvement




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CB **Competitive Bidding**

- Controls should be in place:
 - Include at least one outside bidder *
 - CNYC, Internet
 - Maintain documentation
 - Keep competitive proposals
 - Record of approval of services performed or goods received



* One of the three absolute rules to follow 55


CB **Competitive Bidding**

- Controls should be in place:
 - Bidding and bid opening procedure
 - Mandated over a certain amount
 - Minimum number of bidders
 - Opened in presence of board member(s)
 - Board approval for all change orders



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CB **Competitive Bidding**



- Monitoring (what to check):
 - Confirm payments are in line with amount of work done
 - Review progress billing and all change orders
 - Monitor for cost overruns

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CB **One More Important Rule**

If you don't understand something or why it was done, **ASK questions!** *

Make sure the answer makes sense to you or ask again.

* One of the three absolute rules to follow 58

CB **Reminder...**

- We have covered some basics
- There are unlimited ways fraud and embezzlement can occur
 - Be vigilant !
 - Ask questions !

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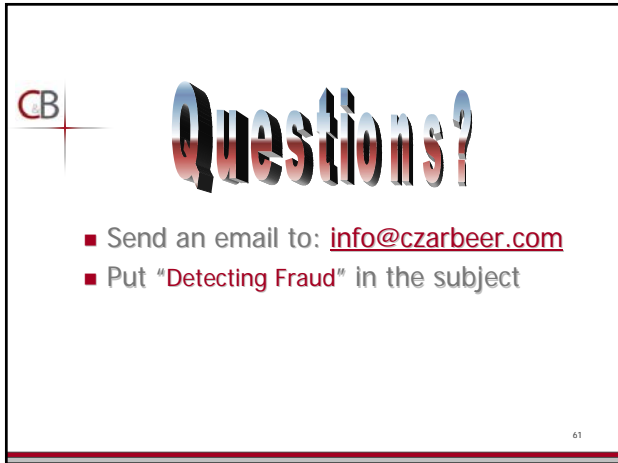
CB **Upcoming Webinars**

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Dec. 1, 2011	7 pm	1099s - Reporting, Penalties and Amnesty
Jan. 19, 2012	7 pm	What You Need to Know About Management Reports
Feb. 7, 2012	7 pm	Long Term Planning - The Key to Successful Properties
Mar. 5, 2012	7 pm	Understanding Condominium Financial Statements
Apr. 18, 2012	7 pm	Board Member Responsibilities
May 25, 2012	6 pm	Understanding Cooperative Financial Statements

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Questions?

- Send an email to: info@czarbeer.com
- Put "Detecting Fraud" in the subject

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