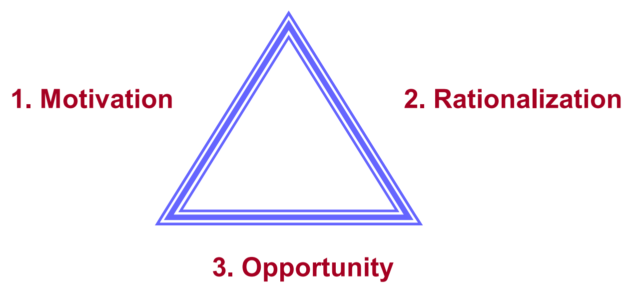
Gillespie County
Fraud Awareness Quick Reference Guide

I. WHAT IS FRAUD? Fraud is the intentional misrepresentation of the truth in order to induce another to part with something of value. Fraud is characterized by deceit, concealment, or a violation of trust.

II. REMEMBER:
Fraud can be committed by any employee; i.e. clerks, cashiers, supervisors, or department heads or officials.
Management must practice professional skepticism in combating fraud.
Everyone must acknowledge that fraud exists.
Follow up on “red flags” and report suspected fraudulent activity.

III. THREE BASIC ELEMENTS OF FRAUD

Fraud Triangle



1. Motivation
- High personal debts (possibly from credit cards, divorce, medical bills, etc.)
- Living beyond one’s means
- Extensive gambling
- Heavy use of alcohol or drugs
- Extreme community or social expectations to succeed
- Perception of being treated unfairly or inadequately in the organization
- Greed

2. Rationalization
Fraud offenders convince themselves that their fraudulent acts are justified and will not harm the organization.

3. Opportunities Leading to Fraud
- Too much control in key employees
- Poor or un-enforced internal controls
- Inadequate personnel screening policies for hiring new employees
- Dishonest or unethical management
- Constantly operating under crisis conditions
- Paying little attention to details

IV. OCCUPATIONAL FRAUD –Three categories:

Occupational Fraud is the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization’s resources or assets.

1. **Asset Misappropriation -** Most common offense of occupational fraud.
Examples: skimming cash, billing schemes, false expenses, and false payroll claims.

2. **Corruption -** The misuse of one's position for personal gain or an unauthorized act. Employee often acts in collusion with an individual outside of the organization. Examples: conflicts of interest, (purchasing or sales schemes), bribery (invoice kickbacks), illegal gratuities, or economic extortion.

3. **Fraudulent Statements – Two subcategories:**
   - Fraudulent financial statements- reporting fictitious revenues, concealing expenses and making improper disclosures.
   - Fraudulent non-financial statements- submitting inaccurate employee credentials or preparing false internal documents.

V. FRAUD PREVENTION

1. **Fraud Reporting Policy** – Tips from employees are the most common method of fraud detection. The County has a fraud reporting policy with guidelines on how to report suspected fraudulent activity.

2. **Knowledge of the Importance of Internal Controls** – Management is responsible to implement and monitor an effective internal control system. Effective internal controls are a series of checks and balances that are designed to prevent individuals from working in complete autonomy where fraud could go undetected.

3. **An Ethical Environment** – Management, through their actions, set the tone as to the appropriate business code of conduct within the County.

4. **Check Employee References** – Background and reference checks are beneficial in preventing fraud.

5. **Employee Fraud Awareness** – Fraud awareness by employees provides the basic framework for recognizing and reporting fraud.

6. **Create a Positive Work Environment** – Disgruntled employees sometimes commit fraud as a means of "getting back" at the organization for perceived workplace inequities and unfairness. To minimize the risk of fraud due to unfavorable employee morale, it is essential that management create a positive and open working environment.