

# North Carolina State Treasurer Local Government Auditing

## What To Do If You Suspect Fraud During Your Audit

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North Carolina Department of Health and Human Services

# Session Objectives

- Discuss professional obligations of CPAs auditing local governments in North Carolina
- Examine several local government fraud cases
- Review the ACFE's Report to the Nations including government fraud research
- Discuss fraud prevention for local governments

# Professional Obligations

- Contractual Requirements
- Generally Accepted Auditing Standards – AU Section 316
- Professional Ethics and Conduct — North Carolina Administrative Code – Subchapter 08N

# From the Headlines.....



# Former Executive at NC Mental Health Agency Charged with Bribery, Fraud



# Local Government Fraud Cases

- Wake County Public School System
- Eastpointe Human Services
- Wake County Register of Deeds
- California Local Government Cases
- Dixon, Illinois

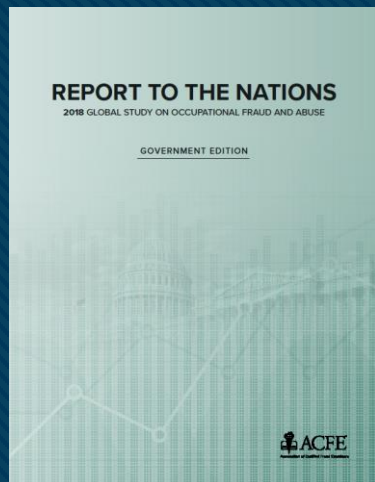
# All the Queen's Horses

<https://www.pbs.org/video/all-queens-horses-tells-story-rita-crundwell-byrrum/>

Lessons for Independent Auditors

# ACFE Report to the Nations

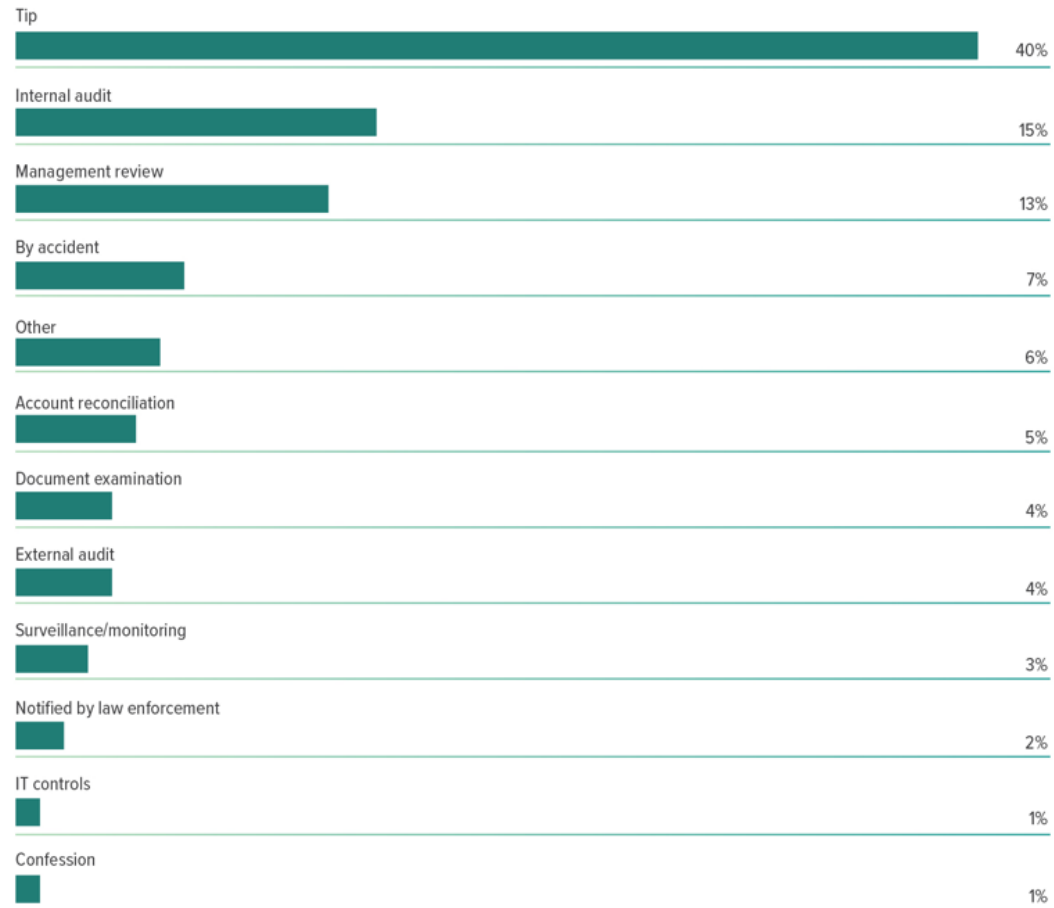
## Government Edition





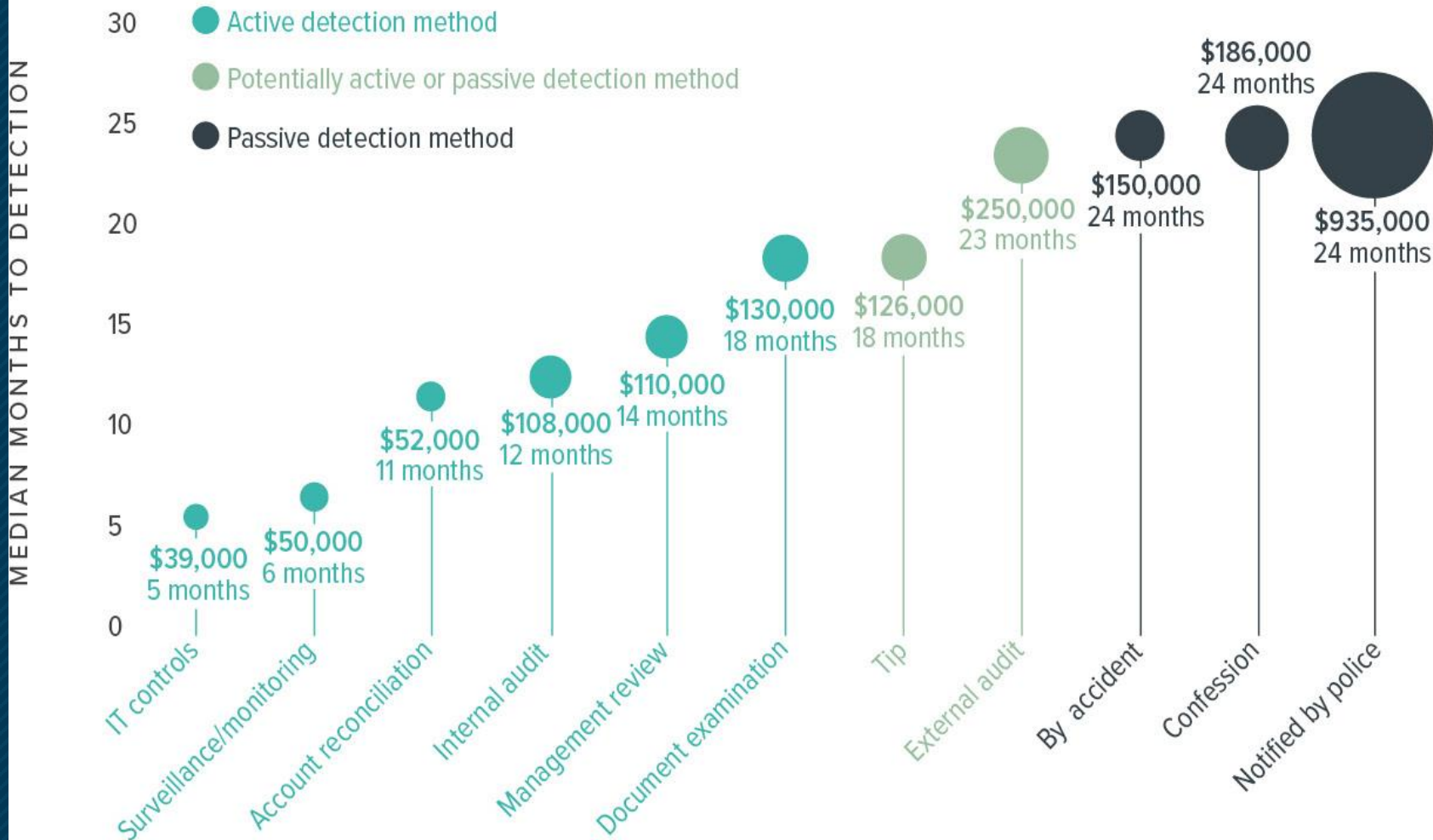
# 2018 ACFE Report to the Nations

FIG. 9 How is occupational fraud initially detected?



# 2018 ACFE Report to the Nations

FIG. 11 How does detection method relate to fraud duration and loss?



# Preventing Fraud in Towns and Municipalities



<https://www.acfe.com/content.aspx?id=4294987917>

# Key Takeaways from the ACFE Video

- Local governments often don't have adequate resources for proper oversight
- Internal controls are often insufficient
- Small fraudulent activity can often lead to bigger issues
- Absence of risk assessments
  - Where are we vulnerable?
  - Where are our exposures?
  - What are our risks?
  - How are we going to address those risks?
- Overreliance on external audits
  - We get a “clean opinion” every year – therefore our controls are good
  - Our risks are properly addressed

# Addressing Fraud Risk in Local Government (from the ACFE Video)

- Build awareness – everyone has a role in preventing fraud
- Zero tolerance for fraud
- If you see something, say something
- Employees should be educated – what is allowed – what is not allowed
- Employees have a duty of loyalty to the government

# The Tone at the Top

AICPA / ACFE Video: [“The Tone at the Top”](#)



Steven Salbu  
Georgia Institute of Technology - Atlanta, GA

# Create a Path for Reporting Misconduct (e.g., – a Whistleblower Hotline)

- Dr. Salbu



Using a questionnaire via email (one CPA firm's approach)



# Fraud Involves People

- Systems Don't Commit Fraud
- Processes Don't Commit Fraud
- People Commit Fraud
- Fraud Prevention Requires an Ethical Workplace and Effective Supervision of People

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# Fraud Prevention and Detection

- Authorization of Transactions and Activities
- Segregation of Duties
- Use of Adequate Documents and Records
- Adequate Safeguards over Access to and Use of Assets and Records
- Independent Verification of Transactions

# Fraud Prevention and the Procurement Cycle

## Procurement Fraud Often Revealed in Defects

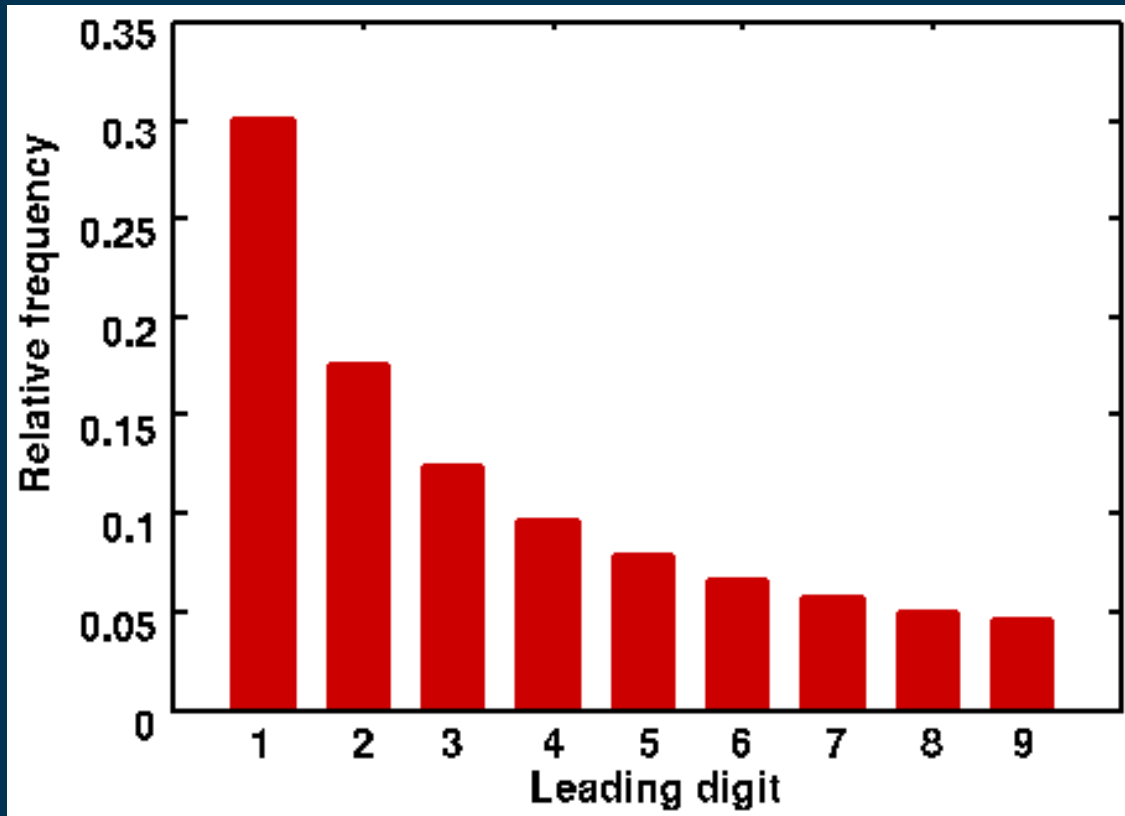
- Selection of Vendors and Contractors
- Pricing of Products and Services
- Quantity of Products and Services
- Quality of Products and Services
- Delivery of Products and Services

# Fraud Prevention and Detection

- Verify the deliverable – payments should always require adequate supporting documentation
- Know the people in your organization
- Perform proactive audits
- Focus on internal control
- Leverage technology – use data mining / data analysis

# Data Mining / Predictive Analytics / Benford's Law

<http://www.nigrini.com/>



# ACFE Videos - Conducting Interviews

<https://www.acfe.com/content.aspx?id=4294977539>

<http://www.acfe.com/content.aspx?id=4294977935>



# Resources

<http://www.acfe.com/>

<http://antifraud.aicpa.org>

<http://www.theiia.org/>

# Contact Information

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