

# Accountability – developing an anti-fraud culture and associated internal controls



**Adventist Health**  
INTERNATIONAL

# Learning Objectives

- Understand the impact of tone at the top and accountability in developing an anti-fraud culture
- Explore effective internal controls and other anti-fraud measures in preventing and detecting fraud

What is Fraud?

# Definition

“Fraud” is any activity that relies on deception in order to achieve a gain. Fraud becomes a crime when it is a “knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment” (Black’s Law Dictionary)

Key is **intent**

**Note:** Fraud can be both misappropriation (theft) or misstatement of financial information

# Types of Fraud

## Misappropriation

Occupational Fraud (internal)

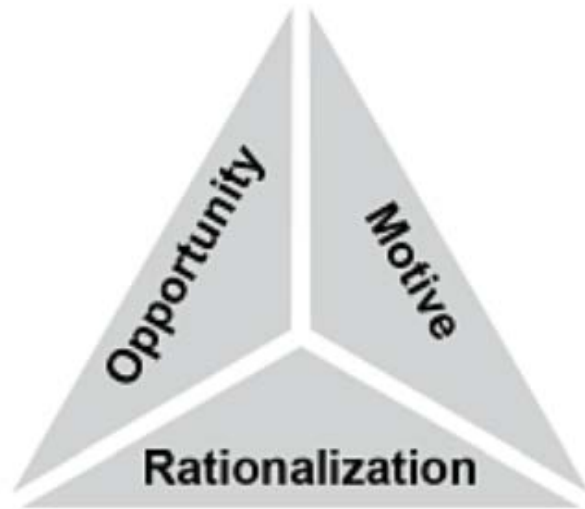
External – e.g. vendor fraud

## Misstatement of Financial Information

Intentional

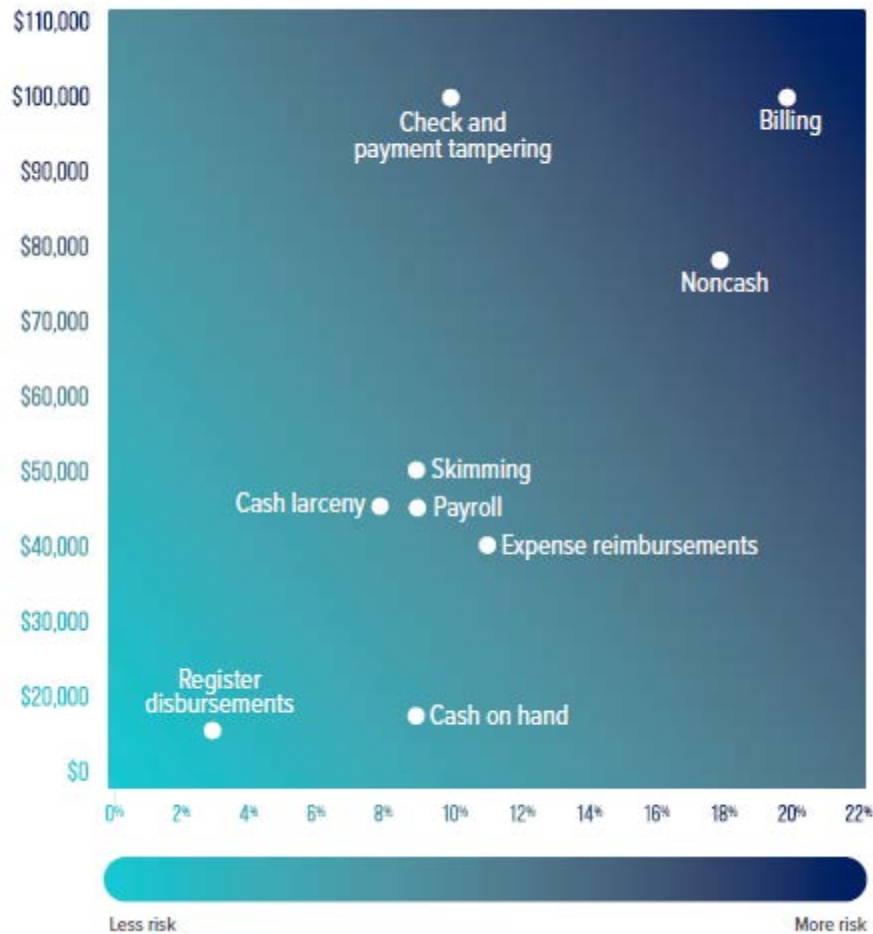
Driven by pressures and incentives to perform

# Fraud Triangle



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FIG. 5 WHICH ASSET MISAPPROPRIATION SCHEMES PRESENT THE GREATEST RISK?



# Actual Examples

Noncash – theft of iPads by marketing director

- denominational land sold at discounted rate to employees

Check and payment tampering

- Interception of checks
- ACH charges to Corporate bank account
- Changing vendor bank account or address details

Expense reporting

- Reporting expenses that were not incurred
- Inflating expenses

Kickbacks and Vendor Fraud

- 'Cost of doing business' in many countries – e.g. building contracts
- Contracts given to friends/family of employee



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FIG. 10 HOW IS OCCUPATIONAL FRAUD INITIALLY DETECTED?

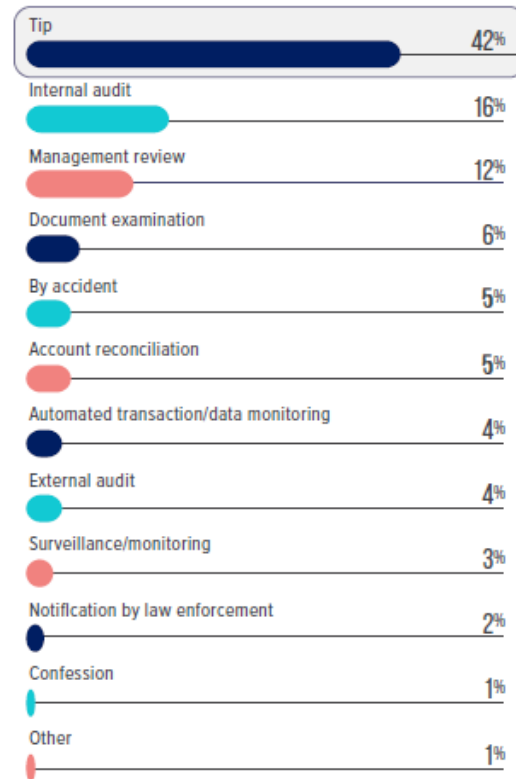
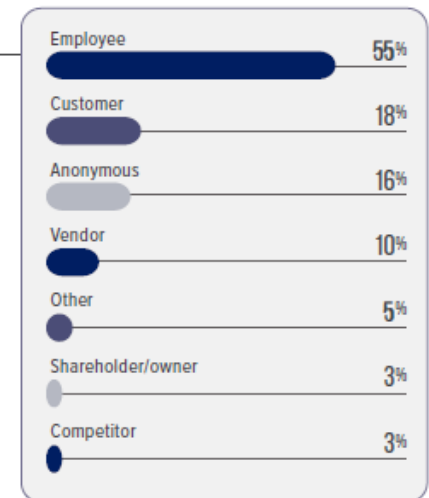


FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



Establishing an anti-fraud culture

# Tone at the Top



**COSO Principle 1:** The entity demonstrates a commitment to integrity and ethical values.

**COSO Principle 2:** The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.

**COSO Principle 3:** Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

**COSO Principle 4:** The entity demonstrates a commitment to attract , develop, and retain competent individuals in alignment with objectives.

**COSO Principle 5:** The entity holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

# Tone at the Top

Tone from the top is  
**not what you say,**  
it's what you do



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# Transparency and Accountability



## TRANSPARENCY AND ACCOUNTABILITY

A Global Commitment of  
Seventh-day Adventist Church Leaders



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# Transparency and Accountability

“Transparency and Accountability in Financial Reporting,” suggested a need to improve church leadership culture at all organizational levels, that better controls result from a better culture, that “communication is at the core of effective governance,” and that the result would be greater confidence from all church stakeholders, or constituents.

“It’s not an auditing issue; it’s a character issue,” said Juan Prestol, Adventist world church undertreasurer, during discussion of the matter. “An audit is too late,” he explained to Adventist Review after his remarks, since audits only discover issues after the fact.

What is needed, he added, are “changes in the DNA of Adventist leadership.”

Mark A Kellner, Adventist Review 2011

# Transparency and Accountability

## MY LEADERSHIP PLEDGE

Recognizing that the call to leadership in the Church is a call to service as modeled in the life and ministry of Jesus Christ,

- ✠ I dedicate my life to humble service in whatever capacity or post I may be called to hold.*
- ✠ I covenant to lead a spiritual life of Bible study, prayer, and Christ-like behavior.*
- ✠ I accept my leadership assignment as a sacred trust which is to be used for the glory of God.*
- ✠ I promise to uphold the high moral standards of Christian life and leadership.*
- ✠ I vow to be a faithful steward in protecting the interests of the Church and to nurturing its development.*
- ✠ I determine to strive for excellence in every aspect of my life and work.*
- ✠ I pledge to demonstrate a spirit of cooperation and openness with my colleagues, realizing that in a multitude of counselors there is wisdom.*
- ✠ I commit myself to the principles of shared leadership in the Church.*
- ✠ I devote myself to the noble purpose of advancing the kingdom of God and preparing people for the return of Jesus.*

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Signature

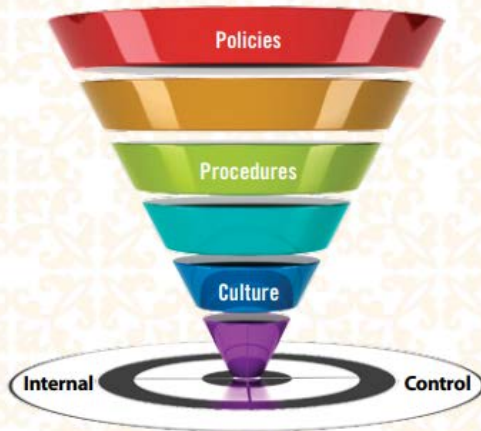
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Place

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Date

# Transparency and Accountability



25



Organizational culture points the way to effective internal control.



# Transparency and Accountability



# Code of Conduct

- » We will avoid relationships and arrangements that might interfere with our decision making ability on behalf of LLUH or create the perception of impropriety. All relationships with non-patient customers, referral sources and suppliers must be maintained at the appropriate business arm's length to avoid even the appearance of impropriety
- » We will promptly inform the appropriate LLUH administrator of any potential conflict that may influence our judgment in the performance of a LLUH duty. All manager and physician level arrangements with conflict of interest implications must be reviewed and approved by the Office of General Counsel.

# Preventing and Detecting Fraud with Internal Controls

# Internal Controls to Prevent and Detect Fraud

- Whistleblower Programs
- Fraud Risk Assessments
- Fraud awareness and prevention training
- Policies and procedures
- Reporting
- Minimize cash transactions
- HR anti-fraud policies
- Segregation of duties
- Address possible motivators!

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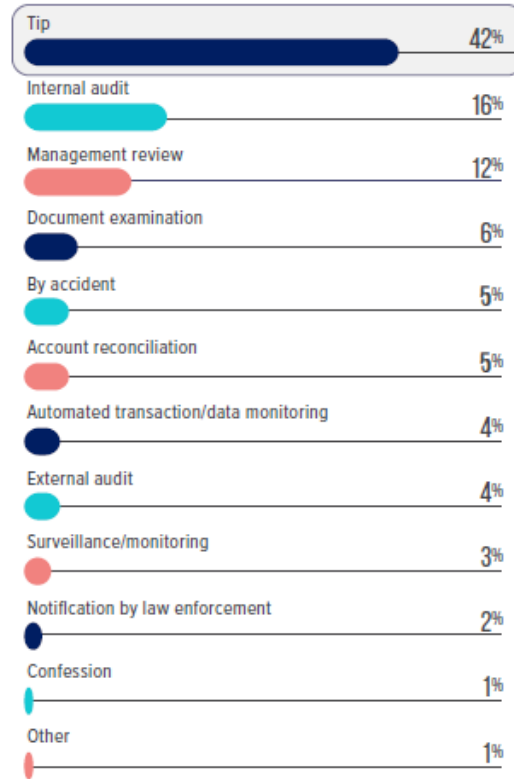
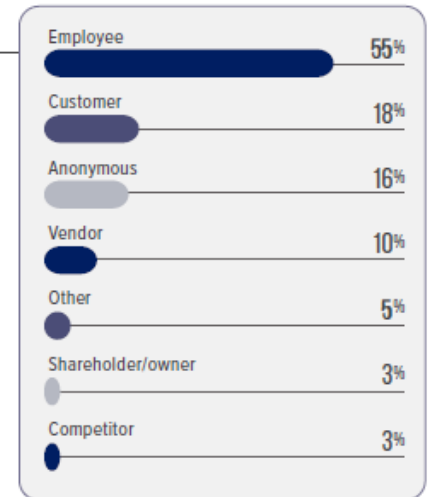


FIG. 11 WHO REPORTS OCCUPATIONAL FRAUD?



# Whistleblower Programs

**ORGANIZATIONS WITHOUT HOTLINES ARE 3.5X MORE LIKELY**  
to discover fraud through an external audit and nearly **2X** more likely by accident



External audit

With hotline 2%

Without hotline 7%

By accident

With hotline 4%

Without hotline 7%

**LARGE ORGANIZATIONS** are especially likely to detect occupational fraud by tip



Since 2012, the percent of tips made through hotlines has **INCREASED DRAMATICALLY**



# Fraud Risk Assessment

## COSO Fraud Risk Management Framework

Fraud Risk Assessment The organization performs comprehensive fraud risk assessments to identify specific fraud schemes and risks, assess their likelihood and significance, evaluate existing fraud control activities, and implement actions to mitigate residual fraud risks

# Anti-fraud training

Control	Percent of cases	Control in place	Control not in place	Percent reduction
Job rotation/mandatory vacation	25%	\$ 64,000	\$140,000	54%
Hotline	70%	\$100,000	\$200,000	50%
Surprise audits	42%	\$ 75,000	\$150,000	50%
Proactive data monitoring/analysis	45%	\$ 80,000	\$150,000	47%
Anti-fraud policy	60%	\$100,000	\$103,000	45%
Fraud training for employees	61%	\$ 97,000	\$177,000	45%
Formal fraud risk assessments	46%	\$ 82,000	\$150,000	45%
Code of conduct	82%	\$100,000	\$168,000	40%
Fraud training for managers/executives	59%	\$100,000	\$165,000	39%
Internal audit department	77%	\$100,000	\$150,000	33%
Dedicated fraud department, function, or team	48%	\$100,000	\$150,000	33%
External audit of internal controls over financial reporting	71%	\$100,000	\$150,000	33%
Management review	69%	\$100,000	\$150,000	33%
External audit of financial statements	82%	\$100,000	\$150,000	33%
Management certification of financial statements	74%	\$100,000	\$140,000	29%
Independent audit committee	67%	\$103,000	\$142,000	27%
Employee support programs	56%	\$ 90,000	\$120,000	25%
Rewards for whistleblowers	15%	\$100,000	\$105,000	5%



# Anti-fraud training

- Raises awareness of fraud
- Communicates zero tolerance policies
- Secures buy in to code of conduct
- Builds anti-fraud culture
- Increases likelihood fraud will be detected

# Policies and Procedures

- Define actions constituting fraud
- Communicate unacceptable behaviors and zero tolerance
- Consequences – e.g. prosecution, termination
- Communicate expectations regarding COI disclosures
- Clarify responsibilities for fraud risk management
- Guarantee of no whistleblower retaliation

Avoid employees saying they didn't know!

# Authorization and Reimbursement

- Pre-authorize employee expenses before incurred

E.g. travel authorization system, no reimbursement of unapproved travel

- Clarify requirements for submitting expense reports
  - Authorized by supervisor
  - Original documentation
  - Proof of payment
  - Proof of travel (e.g. boarding pass)



# Reporting

- Maximize transparency in reporting
- E.g. Monthly travel expense budget to actual comparison distributed to all employees, sorted from high to low

# Minimize Cash Transactions

- Cash is inherently high risk
- Find opportunities to reduce cash transactions
  - E.g. - Adventist giving online
  - Patient electronic payments
  - Policies to prevent payment of vendors in cash
- Avoid asking employees to carry large amounts of cash
- Where unavoidable ensure
  - Physical security of cash
  - Regular spot checks by independent party
  - Minimize number of hands cash goes through

# HR Anti-fraud policies

- Pre-employment screening such as:
  - Felonies
  - Bankruptcies
  - Educational verification
- Job rotation requirements
- Mandatory vacations

# Segregation of Duties

- Fraud risk is reduced if collusion is required
- Ensure duties are properly segregated
  - Receipting, recording, reconciliations of cash
- Ensure more than one individual is involved in
  - Counting/handling cash
  - Negotiations with vendors (anti-kickback)

# Address Possible Motivators

- Pay below living wage
- Employees taking on excessive debt
- Pay linked to performance targets that can be manipulated by employee
- Treat all employees openly and fairly



# Case Study - 1

You have noticed that the assistant treasurer always exceeds his travel budget. When questioned, his response was that he is a popular speaker at local churches and receives many speaking engagement requests. He argues that he promotes the Conference at his speaking engagements and the increased donations as a result would far exceed his additional travel costs. Also, he points to several other departmental directors who have similar high travel expenses.

# Case Study - 1

When you review his expense reports, you notice that he has visited all the most distant churches during the past year, but very few of the local ones. Also, he has insisted on traveling on Friday and Sunday, staying overnight in a hotel and claiming three days per diem, in order to avoid Sabbath travel. Also, you notice that he has driven his personal vehicle to several far-flung locations where the mileage reimbursement exceeded the cost of a typical flight. He also consistently stays in the same chain of hotels, which you are aware have a very favorable frequent traveler program. No pre-authorization is required for travel. Expense reports are processed by the senior accountant who reports to the assistant treasurer. Finally, you notice that for flights that he took, there is no proof that he actually took the trip.

# Case Study - 1

Is this Fraud?

Which parts, if any?

How would you address this situation:

- in the short-term?
- in the longer-term?

# Case Study 1 – Talking Points

## Fraud Risk Triangle

Opportunity – No travel pre-authorization system

Motive – Low denominational salary

Rationalization – Benefits the church, ‘end justifies the means’, others are doing it, this is part of the church salary structure...

Intentionality? Always the hardest part without a confession. Also, due to rationalization, most people do not consider themselves to have committed fraud

# Case Study 1 – Talking Points

Possible Solutions:

**Job description** -Are job duties clearly defined? What speaking engagements are within job duties?

**Policies**- Is there is a policy in place regarding appropriate travel, most economical means, overnight stays etc.

**Authorization**-Implement requirement for pre-authorization of all travel

**Transparency**-Send monthly reports to all traveling employees with the names and amounts of actual travel costs and budget, including the officers

**Review**-Expense reports should be reviewed by person who cannot be influenced by the submitter, typically senior to them

**Documentation**-Proof of trip - e.g. Boarding pass not just reservation

## Case Study - 2

The Conference president is close to retirement. Over his tenure he has encouraged several prominent wealthy church members to make donations to the President's discretionary fund which are for Presidential projects. The President has instructed his CFO to provide tax-deductible receipts to the donors and record this as an agency fund in the accounting records. In advance of his retirement, he instructs the accountant to issue him a check for the amount of these funds which he says will be used to fund evangelistic campaigns that he plans to undertake during his retirement.

What fraud risks are present in this scenario?

## Case Study - 2

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What fraud risks are present in this scenario?

## Case Study 2 – Talking Points

- Solicitation of funds for personal projects is not under direction of the Board
- Give impression of ownership, however any funds raised in capacity as an employee are under control of Organization
- As a result, these funds should not be agency funds, but restricted funds, so accounting is improper
- No documentation of charitable purpose
- Cannot be released in advance
- Goes to accountant for disbursement, accountant may feel pressured because of hierarchy

Even if the funds are eventually spent appropriately, this circumvents normally controls and accounting is improper – fraudulent? Yes, if President is intentionally misstating accounting to give himself full control



## Case Study 2 – Talking Points

What controls can address this?

Agency funds should be reviewed and Audit Committee for instance can ask for rationale for all agency funds to identify potential misclassified funds

Management override is always a risk, independent Board members need to have sufficient oversight to reduce that risk. No member of management should have perceived authority to instruct an employee to circumvent normal internal controls, such as disbursing a check without appropriate support and authorization.

When it comes to the President, the Board needs more direct oversight to mitigate the risk of override.

## Case Study - 3

The Hospital CFO's spouse runs a catering company which is regular engaged to cater for large events on campus. The fact that the company is owned by the CFO's spouse is not a secret and the CFO justifies this because there are limited options for vegetarian food in the locality and the hospital food service is of too low quality for such events.

Is this appropriate and what safeguards could be put in place?

## Case Study – 3 Talking Points

Conflict of Interest does not have to be real, only perceived.

Would this be perceived as an arm's length transaction?

We normally competitive bidding procurement policies implemented?

Is this disclosed on CFO's COI statement?

If it is, is someone independent, with authority over the CFO reviewing the potential conflict?

Even if all these steps take place, will there be those who question this transaction? If in doubt, better to err on the side of caution.