

Recent Fraud Cases & Lessons Learned

2020 ACUIA Region 2 & 3 Conference

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Create Opportunities



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Today's Presenter



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Stephen Schiltz is a principal with CLA's Tucson office. He began his career with CLA in 2002 and has extensive experience providing assurance and consulting services to credit unions and credit union service organizations. Steve has made presentations to credit union management teams, supervisory committees, and boards of directors, as well as national speaking engagements and webinars.

A licensed CPA in Arizona and Texas, Steve is a member of the AICPA, Arizona Society of CPA's and the Beta Gamma Sigma Honor Society. He received his bachelor's in accounting, cum laude, from the University of Arizona in Tucson.



Agenda

- Fraud Statistics
- Consideration of Fraud in a Financial Statement Audit
- Social Engineering



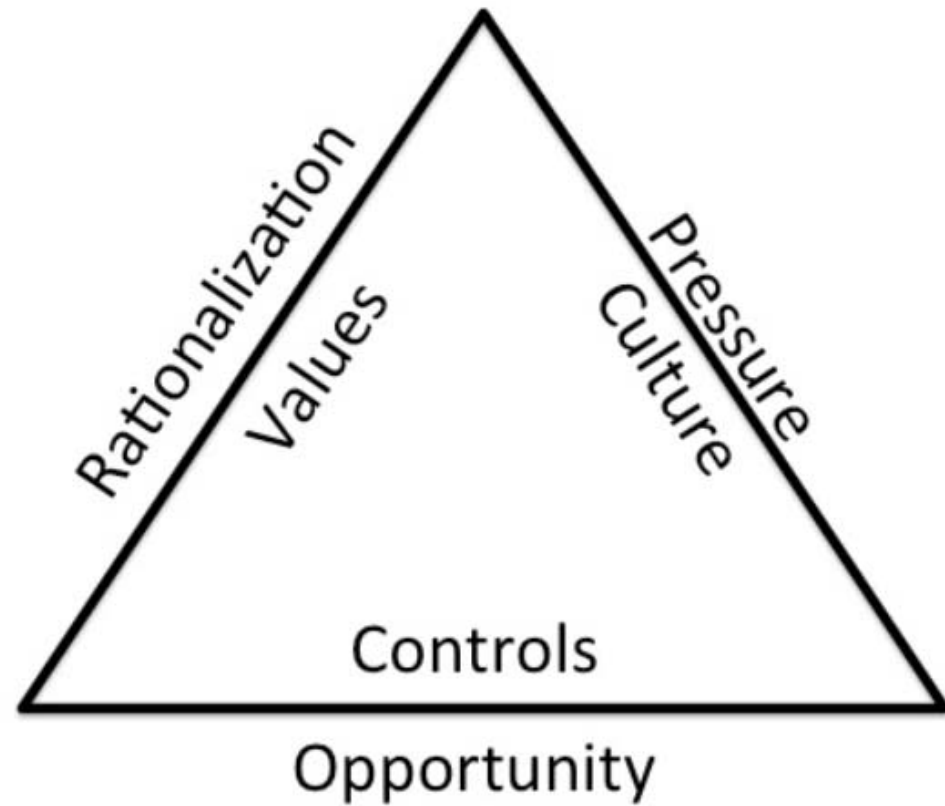


Fraud Statistics

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Fraud Triangle



2018 Report to the Nations Statistics

2,690
real cases of
occupational fraud
from
125 countries
in
23 industry
categories



2018 Report to the Nations Statistics

ASSET MISAPPROPRIATION SCHEMES
are the most common and least costly

\$114,000
median loss



89%
of cases



\$800,000
median loss



**FINANCIAL STATEMENT
FRAUD SCHEMES**
are the least common
and most costly

10%
of cases



TIPS are by far the most common
initial detection method



EMPLOYEES
provide over half
of tips, and nearly
1/3 come from
OUTSIDE PARTIES



ORGANIZATIONS WITH HOTLINES
detect fraud by tips more often

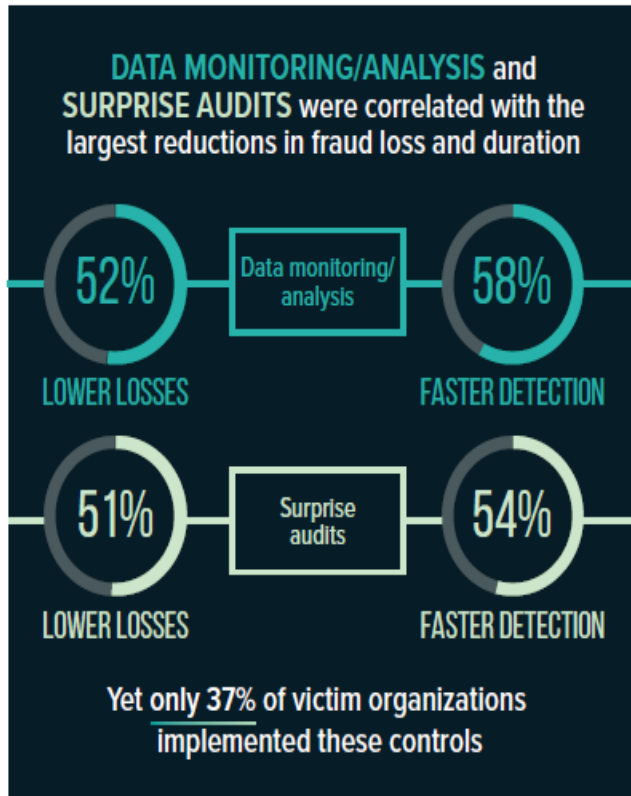


HOTLINES

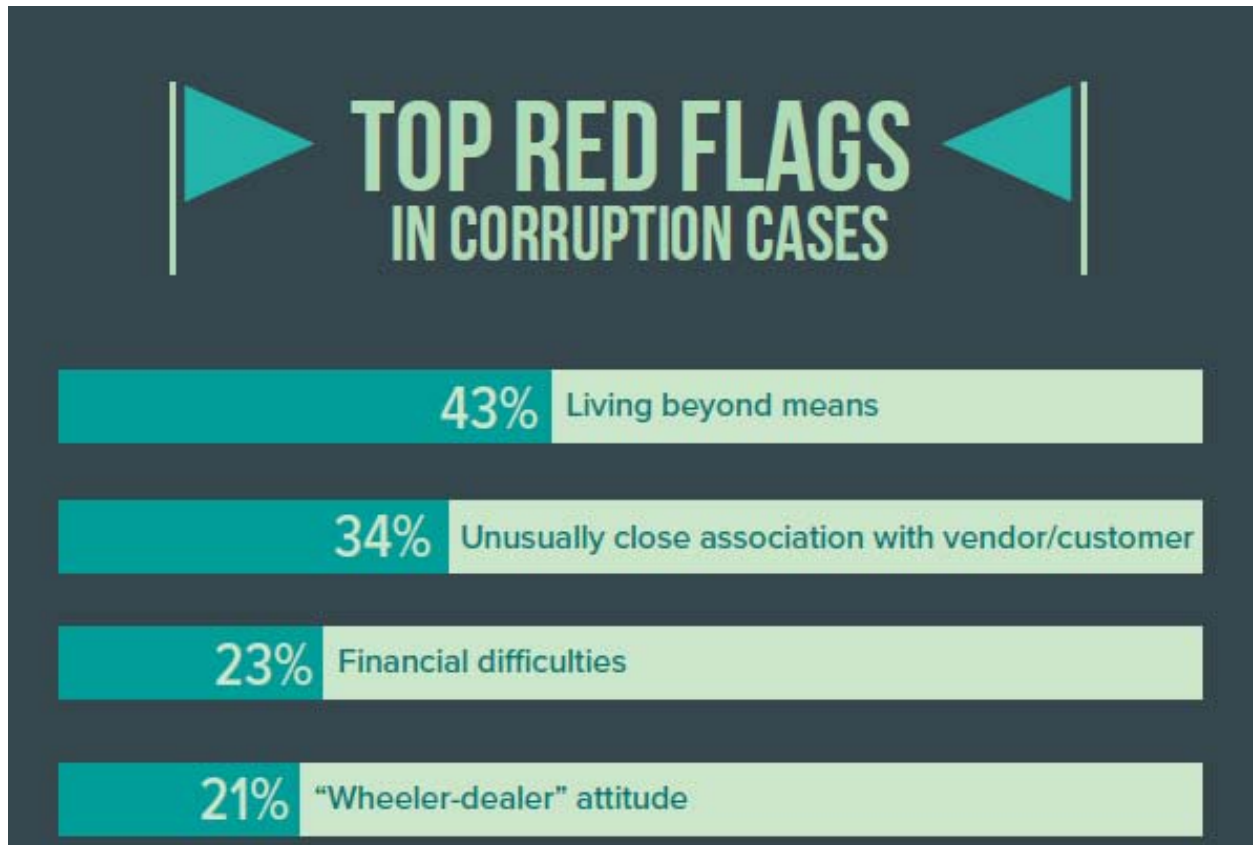


NO HOTLINES

2018 Report to the Nations Statistics



2018 Report to the Nations Statistics





Consideration of Fraud in a Financial Statement Audit

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Auditor's Responsibility

- An auditor conducting an audit in accordance with GAAS is responsible for obtaining **reasonable assurance** that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Risk Assessment

- Performed every year
- Foundation for the entire audit
- Customized audit approach
- Tailor audit programs based on account balances and assessed risks



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Risk Assessment

- Understand the credit union
- Understand fraud risks
- Risk assessment analysis
- Overall audit strategy and team meeting
- Fraud inquiries
- Unpredictability testing



Fraud Inquiries – Who?

- Management (CEO and CFO)
- Governance (Chair)
- Internal audit
- Others



Fraud Inquiries – What?

- Knowledge of any fraud?
- Fraud reporting (hotline)?
- Tone at the top?
- Fraud risks?
- Internal controls?
- Monitoring?
- Communications with governance?
- Compliance with laws and regulations?



Fraud Case #1

- CFO was acting strange.
- He would check-in occasionally, but was avoiding extended conversation.
- He postponed our fraud discussion until the last day of fieldwork.
- Guess what happened when I asked him about his knowledge of any fraud?



Lessons Learned

- It's important to ask the questions!
 - You might think that you would be the last person to find out, but you may be the only one to ask.
- It's important to have a fraud hotline!
- Fraud can effect any organization at any level.



Fraud Case #2

- Credit union with a branch located in a foreign country.
- The deposits in transit cleared for the correct amounts, but a day or two later than other branches.
- The branch manager was tenured, dedicated and very rarely took vacation.
- Guess what happened when the credit union adopted new technology so that it received immediate credit for member deposits?



Lessons Learned

- Always exercise professional skepticism!
- It's important for employees to take uninterrupted vacation of at least one week per year (standard practice for financial institutions).
- Fraud can effect any organization at any level.



Why Use Data Analytics?

- Improved efficiency – automated
- Repeatable tests – can run on data at anytime
- Wider coverage – full coverage of testing population rather than “spot checks” on transactions
- Early warning system – identify fraud before it becomes material



Data Analytics Examples

- Benford's Law
- Monthly general ledger account trending
- Monthly yield trending
- Transactions posted during non-business hours
- Journal entries posted by non-accounting personnel



Benford's Law

- Helps to identify irregularities in numbers
- Numbers starting with lower digits (1) occur more often than numbers starting with higher digits (9)

d	$P(d)$	Relative size of $P(d)$
1	30.1%	
2	17.6%	
3	12.5%	
4	9.7%	
5	7.9%	
6	6.7%	
7	5.8%	
8	5.1%	
9	4.6%	





Social Engineering

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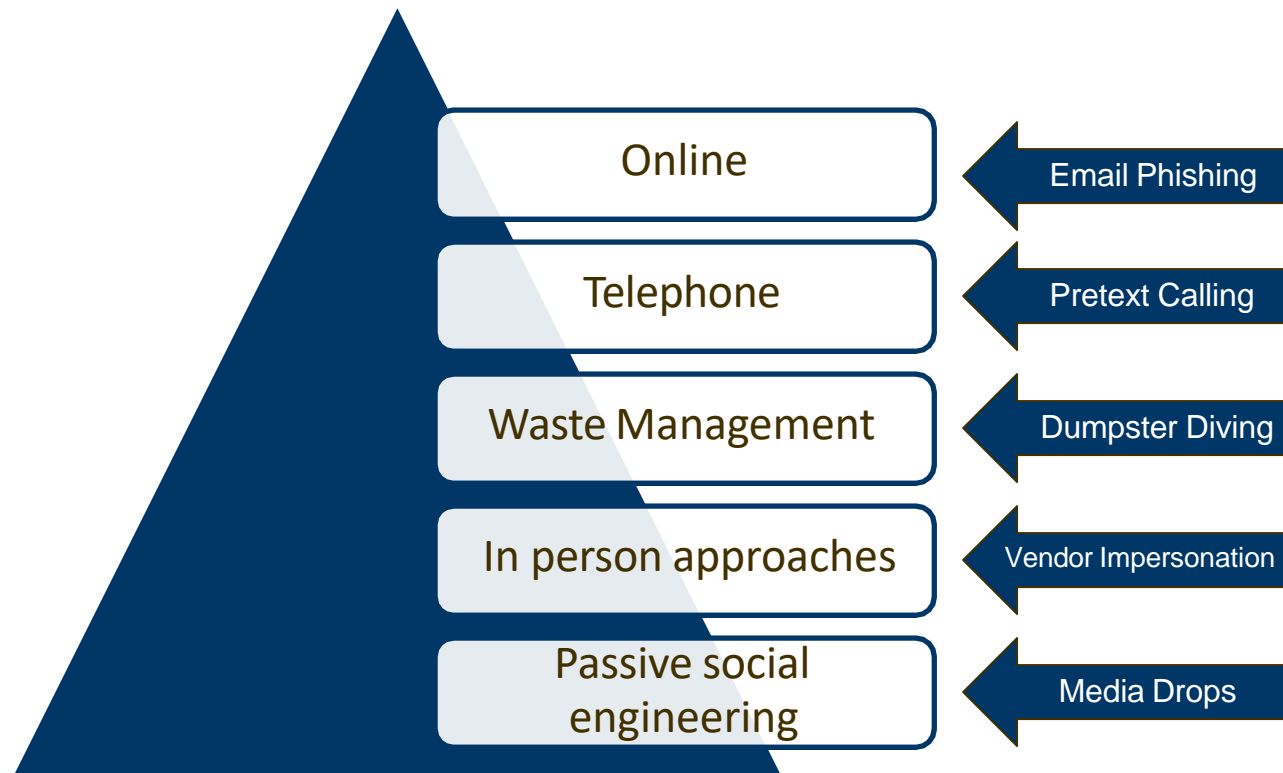
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Social Engineering

- Simply put, social engineering is the exploitation of human nature (hacking the human)
- Psychological manipulation of people into performing actions or divulging confidential information
- Highest risk for these attacks are new employees, contractors, and executive assistants



Attack Vectors



Information Gathering

- The ***information gathering*** process is critical. The internet can provide a host of information essential to performing a successful social engineering attack
- Google images
 - Facility access, entrances
 - Type of access control used
 - Employee information
- Social Media



What is Phishing?

- The fraudulent practice of sending emails purporting to be from reputable companies in order to induce individuals to reveal personal information
- Actions include:
 - Visit a malicious website
 - Download and open a malicious file
 - Provide confidential information (password, account number, credit card number etc.)
 - Wire money out of the organization



Spoofed Internal Source

- Hackers are becoming more sophisticated with their email phishing attacks everyday.
- It is becoming more common for an email phishing message to appear to come from a trusted internal source.






Wed 6/19/2019 7:14 AM

Vern Babilon <vbabilon@topcu.org>

[External] REQUEST

To

Retention Policy CLA Deleted Items - 10 Days (10 days)

 This item will expire in 9 days. To keep this item longer apply a different Retention Policy.

Can I ask you A favor?

Thanks,

G. Vernon Babilon

President/CEO

Tucson Old Pueblo Credit Union

Direct: (520) 918-0000



Create Opportunities

From: Vern Babilon <vbabilon@topcu.org>
Sent: Wednesday, June 19, 2019 10:48 AM
To: Vern Babilon <vbabilon@topcu.org>
Subject: [External] Fraudulent email

If you received an email from me today asking for a favor DO NOT RESPOND TO IT. It was an attempt at Fraud. They spoofed my email and set up a Hotmail address

I am not traveling and my niece is not having a birthday.

Sorry for the inconvenience.

G. Vernon Babilon

President/CEO

Tucson Old Pueblo Credit Union

Direct: (520) 918-0376



Create Opportunities

From: "Amazon.com" <account-update@amazon.com>

11/15/2012 12:46:46 PM

Subject: Revision to Your Amazon.com Account



Account Status Notification

Dear Customers,

We are contacting you to remind you that our Review Team identified that your account has been limited. In accordance with Amazon User Agreement and to ensure that your account has not been accessed from fraudulent locations, access to your account has been limited.

Your Online access will be BLOCKED if this issue is not resolved immediately.
Please log in your account by clicking on the link below to restore your account Immediately:
<https://www.amazon.com/verify/idp/login.htm>

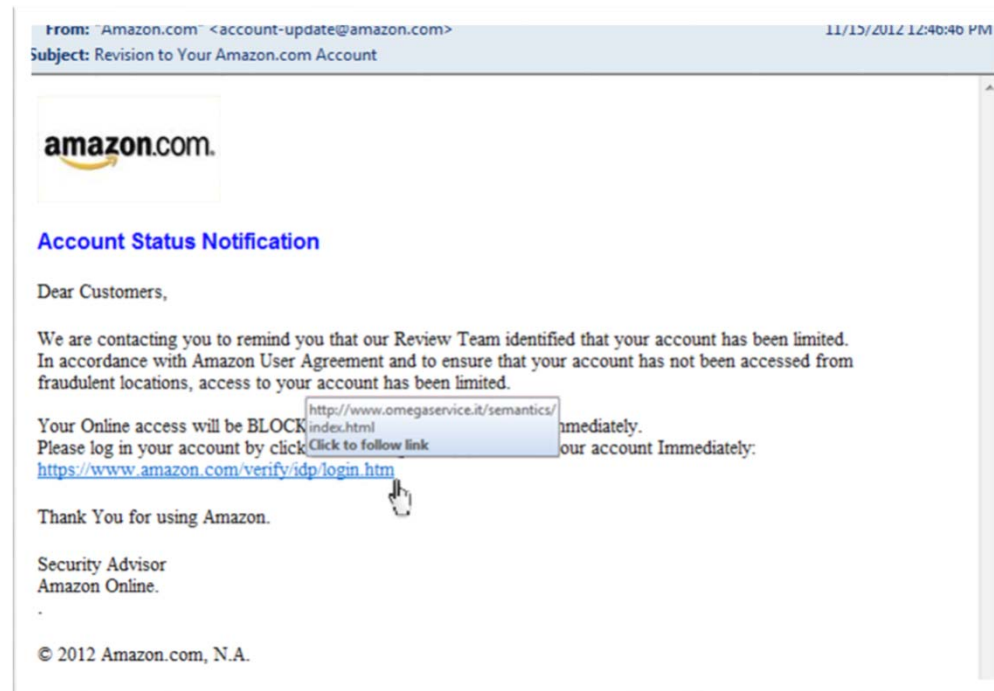
Thank You for using Amazon.

Security Advisor
Amazon Online.

© 2012 Amazon.com, N.A.



1. Hovering over a link with your mouse will show the true path of an email link.



2. This link appears to go to Amazon but is actually going to a malicious site.



Ransomware

- Examples include CryptoWall, CryptoLocker, etc.
- Encrypt all data, hold it “ransom” for \$\$
 - Data on local machine and on network
- Attackers are putting much more time and effort into these types of attacks over the last year
- Starting to target other operating systems, like Macs



Juice Jacking

- Criminals load malware onto charging stations or cables to infect the phones and other electronic devices of unsuspecting users



Coronavirus Fraud Losses

- Article published by CNBC on 4/15/20 indicates that COVID-19 scams have cost more than 18,000 Americans a total of \$13.4 million since 1/1/20.
- Top fraud categories are related to travel and vacations (refunds), online shopping (products never delivered), bogus text messages (charitable contributions), and imposter scams (attempts to steal economic impact payments).



Think Security! This email originated from an external source.

Security Awareness Tips

- Consider having your credit union differentiate between internal and external emails received
- Consider having a social engineering review to evaluate your organization's response to:
 - Phishing attempts
 - Vendor impersonation
 - Unauthorized requests for sensitive information
 - Information security (password requirements, access to flash drives, locking workstations, securing sensitive information, etc.)



Security Awareness Tips- Juice Jacking

- Fully charge your devices before traveling.
- Bring your own chargers.
- Consider buying a portable charger/battery so you are not reliant on USB charging ports.
- In public places, use an AC power outlet, not a USB charging station.



Security Awareness Tips

- Don't trust email attachments
- Don't trust links
- Don't provide personal information via email
- Look at the sender's email address and refrain from clicking on links until you are certain the sender and organization are legitimate



Security Awareness Tips

- Ensure you are visiting the website you think you are visiting
- Type web addresses directly into your browser rather than clicking on links
- Keep anti-virus software up to date and make sure that you have enacted the anti-phishing software.
- If something looks odd...

CHECK IT BEFORE YOU CLICK IT!





Questions?

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Thank you!

