Best Practices to Prevent Fraud in a Remote Environment

Megan Argenbright, CPA
Agenda

TOPICS TO COVER

- What are the new fraud risks in a Remote Environment?
- How do we adapt?
March 2020 the world changed....
From an onsite to a virtual, or remote, world:

- Previously most people were onsite
- Now a mix of remote and onsite
- Remote is not predefined, could be anywhere
- Inconsistent – mix of both and may not know who will be in the office

**Concern:** How do you manage your team when you don’t see them?
Previously most work days were 8:30/9:00 to 5:00
Now many organizations do not have a uniform work schedule
Just get work done.

**Concern:** How do you work with your team and oversee their work when you are not working the same hours?

**Concern:** How do you know people are working when they say they’re going to?
Higher emphasis on technology

- Previously most internal controls involved at least some amount of physical documentation:
  - Invoices
  - Purchase orders
  - Check signatures
  - Routing sheets
- Now much can be done electronically
- **Concern:** Are electronic controls as effective and as clearly documented?
Higher need for flexibility

- Unexpected closures to facilities
- Unexpected absences of key employees
- **Concern:** Need to adapt quickly to ensure operations continue and that controls are still effective and timely
It all starts with your IT controls

• To have effective controls in a constantly changing environment, your IT controls need to be effective in the office, at your employees’ homes, or sitting at a coffee shop.
• It all comes down to access and security.
• Let’s talk about IT controls....
With increased dependency on IT personnel and infrastructure to support remote work.

Key IT staff with administrative privileges need to be available and able to assist.

**Concern:** What do you do if IT personnel are unable to perform their duties (possibly due to illness)?

**Concern:** Cost/benefit of having an IT person for small organizations?
Super User Access – Responses

- Assess where your risks are
- Consider cross training IT staff to support multiple activities
- Design contingency plans for IT personnel
- Consider using “password vaults” with secure access to store admin passwords
- Don’t forget to consider segregation of duties!

Fraud Prevention in a Remote Environment
Change Management – Concerns

- Individuals try to shortcut change management process because COVID could “cause delays”.
- Add new users or new roles that are unapproved.
- Personnel are unavailable to approve changes.
- May be inadequate testing of changes to new systems before “go live”.
- Critical, real time changes may be needed but appropriate IT personnel are not available resulting in potential errors.
- Routine changes, such as security patches, may not be completed in timely manner.
- Temporary access changes may become permanent if no one follows up to make sure temporary access is removed (i.e. someone out on FMLA so have a fill-in)
Change Management – Responses

- Train users to ensure they understand what an appropriate change request should be.
  - Reduces volume of requests.
- Ensure appropriate monitoring controls exist over change management and that they do not change.
- Review current procedures to ensure only appropriate individuals are making changes to systems
- Do not hesitate to challenge some requests.
REMOTE WORKING – CONCERNS

- Lack of infrastructure could limit ability for workers to log on to applications
- Employees may seek to work around existing security protocols
- Increased exposure to hacker activity (odd-time requests are not unusual)
- General security of data while employees work on a multitude of internet connections
REMOTE WORKING – RESPONSES

- Prepare plan for IT operations outside of normal peak hours.
- Establish appropriate security technologies, such as VPNs.
- Remind employees of security training.
- Enhance frequency of employee security training.
- Enhance monitoring of organization network due to remote users interface from home (and possibly unsecured) networks.
- Enforce password rules (Complexity, increase frequency of required changes)
GENERAL COMMENTS ON INTERNAL CONTROLS

- Controls are not “one size fits all”
- Some organizations already are susceptible to inherent risks due to size
- It’s not HOW you perform the control that matters, it’s WHY you perform the control.
Management review controls - Concerns

- Breakdown in review controls due to inability of individuals to perform duties
- Lack of reliable information
- Inability to access employees to resolve review questions
- Concerns with documentation of control performance
Management review controls – Responses

- Verify control processes are clearly documented in case roles need to suddenly change
- Cross train reviewers in case roles need to suddenly change
- Modify documentation appropriately:
  - Email approval vs. signature stamp
  - Use electronic approval functions in financial software
  - Ensure documentation is maintained.
- Set explicit, but reasonable, deadlines for reviews knowing everyone works different schedules now.
- Consider involving governance members.
Disbursement Controls – Concerns

- Entering inappropriate payables
- Initiating inappropriate disbursements
- Creating fictitious vendors
- Improper use of credit or debit cards
- Timeliness of payment because invoices are going to an office mailbox and the department head is working at home. Now becomes an emergency payment that’s late.

Disbursements Controls – Responses

- None of these should be NEW concerns
- Appropriately segregate duties
- Ensure there are appropriate detective controls, including timely management reviews.
- Consider enhancing frequency to catch errors more timely.

Never allow circumvention of controls due to changes in circumstances.

Fraud Prevention in a Remote Environment
Disbursement Controls – Specific Responses

- Timely reconciliation of bank and credit card accounts.
- Review vendor change reports frequently.
- Ensure all new payables are approved and approval is documented.
- Manage disbursements for gaps in transaction sequences (checks, etc.)
- When reviewing transactions, place greater emphasis on transactions posted at night or on weekends.
PAYROLL AND HUMAN RESOURCES CONTROLS – CONCERNS

- Are employees actually working the hours they are reporting?
- With more frequent furloughs and resignations, is employee removal done timely?
- Are new employees legitimate employees?
PAYROLL AND HUMAN RESOURCES CONTROLS – RESPONSES

- More heavily scrutinized time sheets.
  - Managers should be able to have a general idea if their folks are working based on interactions and work product.
- Review employee change reports frequently.
Are these “Challenges” or “Opportunities”?

- While these were responses to the pandemic . . .
- ... They also may be the “New Normal”...
- ... Let’s take this opportunity to:
  - Increase effectiveness of controls
  - Actually use the benefits of technology
  - Increase efficiency
  - Make your workplace more flexible
Any Questions?
Contact Information:

Megan Argenbright,
CPA

EMAIL ADDRESS
margenbright@becpas.com

PHONE NUMBER
(540)-437-3204