



First Friday Fraud Facts+

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The Office of the Idaho State Controller distributes this newsletter as a public service and as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.

Expense Reimbursement Fraud

Expense reimbursement fraud is defined by the Association of Certified Fraud Examiners (ACFE) as a fraudulent disbursement scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses. Expense reimbursement fraud schemes are among the most common types of fraud, accounting for 14% of all asset misappropriation fraud schemes, according to the 2016 Report to the Nations on Occupational Fraud and Abuse by the ACFE. These cases resulted in a median loss of \$30,000 per scheme with a median detection time of 24 months.²

According to the ACFE, expense reimbursement schemes generally fall into one of four categories:¹

1. Mischaracterized expenses. This involves requesting reimbursement for a personal expense by claiming that it's business related. For example, an employee who takes a family vacation and requests reimbursement for meal and hotel expenses by submitting actual receipts and a false expense report.
2. Overstated expenses. Overstating expenses involves inflating the cost of actual business expenses. For example, by altering receipts or obtaining a refund for a portion of the expense.
3. Fictitious expenses. Obtaining reimbursement for nonexistent expenses by submitting false expense reports and fake receipts or other documentation would fall under this category. A common technique is to obtain a stockpile of blank receipts from taxicab companies or other vendors and submit them over time.
4. Multiple reimbursements. This scheme involves requesting reimbursement for the same expense several times. Typically this type of scam is usually carried out by submitting photocopied receipts or different forms of supporting documentation (for example, receipts, email confirmations, canceled checks and invoices).

Prevention and Detection

Accounting is the final stop in the reimbursement process. A formal reimbursement process and strong internal control regarding the reimbursement process can greatly reduce the risk of reimbursement fraud.³

It is true that the strongest internal controls will not guarantee absolute prevention or detection of fraud. Internal control is defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. A material weakness is a deficiency, or a combina-

Employee reimbursement fraud is one of the fastest growing areas of occupational fraud.

- ACFE 2016 Report to the Nations



Inside This Issue:

Expense Reimbursement Fraud	1
Prevention and Detection	1
Tips for prevention and detection of reimbursement fraud (AICPA)	2
Former Hopkins physician sentenced to prison for lying about travel expenses	3

tion of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Examples of possible weaknesses pertaining to expense reimbursement fraud would be: non-formalized expense reimbursement process, use of personal credit cards by employees, and outdated policies.

Both manual and automated controls can help reduce an organization's risk of false or fraudulent expense reimbursements. One of the best preventive controls to expense reimbursement fraud is a formalized expense reimbursement policy. Strong policies should include requiring original receipts for all expenses, requiring senior-level employees to pay group expenses, prohibiting segmented expenses, prohibiting personal credit card usage unless conditions warrant, and mandating prior authorization to include signatures and dates on all employee reimbursement reports. Consequences for violations should also be clearly articulated in the written policy. In instances where the organization is without a formal expense reimbursement process, they may want to consider an automated solution. However, you want to make sure that the solution fits the business need and does not overburden the accounting staff.

Limiting use of personal credit cards by employees is smart business practice, in general. When an employee uses their personal credit card rather than a corporate card or procurement card, it is not possible to track the credit card statement to see if items were subsequently returned, meaning the employee would have been reimbursed for the expense.

It is always highly recommended that expense reimbursement policies should be well documented and reviewed on an annual basis, at the very minimum. Lastly, monitor credit card holders and implement a two-step approval process. This might entail a listing of credit card holders, credit limits and job titles and should be monitored annually. Cards should also be recovered when an employee changes positions and no longer requires a credit card. Two approvals should be required in order to reduce the risk of unauthorized issuance.

With the increased acceptance of credit cards, cash payments should be carefully scrutinized.

Detailed receipts should be required. One of the easiest ways to submit multiple reimbursement claims is for one employee to submit the detailed receipt and another employee submits the credit card summary receipt for the same expense.

Comparing expense receipts to the employee's work and vacation schedule can help identify personal expenses being submitted for work-related reimbursements.

Above all, it is imperative that the organization consistently and continually enforce the written policy. This must include everyone in the organization, starting with upper management. An unenforced policy is an ineffective internal control. If employees learn that the policy is not enforced, they will be less likely to abide by its provisions. On the other hand, if an employee's reimbursement is denied for lack of substantiating documentation, that employee and others will be more careful in the future.

Tips for prevention and detection of expense reimbursement fraud:

The American Institute of Certified Public Accountants (AICPA) identifies these additional tips for the detection and prevention of expense reim-

bursement fraud:¹

- Require detailed receipts, including documentation of the business purpose of the expense.
- Require that meal and entertainment receipts include the number and names of attendees.
- Ensure that employees' supervisors review and approve all expense reports prior to payment.
- Establish a policy for approval of executive management expense reports.
- Attach conference schedules to expense reports, as applicable.
- Use standard daily per diem rates for meals and incidental expenses.
- Establish budgets for travel and entertainment expenses by person and level, and perform budget-to-actual reviews of travel and entertainment expenses for each employee at least quarterly.
- Compare the dates expenses were incurred with employees' work schedules.
- Verify appropriateness of mileage claimed for employee trips via an internet map program.

Former Hopkins physician sentenced to prison for lying about travel expenses

Jean-Francois Geschwind, a former doctor at the Johns Hopkins University School of Medicine was sentenced to a year and a day in federal prison for lying about his travel expenses and obtaining “hundreds of thousands of dollars” in fraudulent reimbursements.⁵

Geschwind was a physician in Hopkins' division of vascular and interventional radiology between 1998 and 2015. Geschwind sought reimbursement for personal expenses including family vacations and meals, as well as for expenses that had been, or he knew would be, paid by parties other than Hopkins.

In one instance, Geschwind got Hopkins to pay for expenses related to a 13-day family vacation to the United Kingdom and France in 2013 by falsely claiming he was making those trips to deliver lectures related to his work at Hopkins. In another instance, Geschwind managed to be reimbursed three times for round-trip airfare to a conference in Japan in 2015—once by Hopkins, once by a life-sciences company based in France, and once by the Yale School of Medicine, where he had begun working prior to the conference.⁴

According to the U.S. attorney's office, the fraudulent reimbursement claims were discovered by Hopkins' internal auditing department.⁴

Geschwind pled guilty to four counts of mail fraud. According to his plea agreement, Geschwind made material misrepresentation and omissions in travel expense statements that he submitted or caused to be submitted to the Johns Hopkins University School of Medicine, for the purpose of obtaining travel expense reimbursements to which he was not entitled.

Geschwind was sentenced to a year and a day in federal prison, followed by three years of supervised release, and ordered to pay \$583,484.31 in restitution.

Citations

¹Expense Reimbursement Fraud. <https://www.eisneramper.com/expense-fraud-1115/>. Accessed 5 February 2018.

²How to stop expense reimbursement fraud. <https://www.journalofaccountancy.com/issues/2016/nov/stop-expense-reimbursement-fraud.html>. Accessed 5 February 2018.

³Employee expense reimbursement: Legitimate or fraudulent?. <http://www.mncpa.org/publications/footnote/2015-02/employee-expense-reimbursements-legitimate-or-fraudulent.aspx>. Accessed 13 February 2018.

⁴Former Johns Hopkins Physician Pleads Guilty To Fraud Scheme Involving Travel Expense Reimbursements. <https://www.justice.gov/usao-md/pr/former-johns-hopkins-physician-pleads-guilty-fraud-scheme-involving-travel-expense>. Accessed 21 February 2018.

⁵Former Hopkins physician sentenced to prison for lying about travel expenses. <http://www.baltimoresun.com/news/maryland/crime/bs-md-fraud-20170930-story.html>. Accessed 21 February 2018.

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