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Washington Metropolitan Area Transit Authority
Board Action/Information Summary

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○ Action ● Information	MEAD Number: 201940	Resolution: ○ Yes ● No

TITLE:

Board Training

PRESENTATION SUMMARY:

The 2017 audit awareness training discusses what the Board should know about fraud as it carries out its oversight responsibilities.

PURPOSE:

To provide new and existing Board Members with training on fraud awareness with a specific focus on the Board's oversight responsibilities. The training session will fulfill the audit awareness training requirements outlined in Article III of the Bylaws of the Washington Metropolitan Area Transit Authority (WMATA) Board of Directors.

DESCRIPTION:

Key Highlights:

Training is designed to increase Board fraud awareness including leading causes of fraud and national fraud trends in government and the transportation industry.
The session will also address what the Board can do to prevent fraud in the performance of their oversight responsibility.

Background and History:

Audit Awareness Requirement:
Article III Section 5b of the Bylaws of the Washington Metropolitan Area Transit Authority Board of Directors states in part that the Business Oversight Committee is responsible for providing oversight of the quality and integrity of WMATA's internal controls, compliance systems, and auditing and accounting systems. This section also states that the Business Oversight Committee is responsible for conducting annual audit awareness training for all Board members. Under the direction of the Business Oversight Committee, this training session is designed to meet the audit awareness training for new and existing Members.

Discussion:

According to the Association of Certified Fraud Examiners (ACFE), organizations lose approximately 5% of revenue due to fraud, and studies have shown that a strong internal control environment is the first line of defense. A strong internal control environment starts with the tone at the top of an organization, which comes from its Board of Directors and senior management.

A clear understanding of potential vulnerabilities and what management can do to protect the organization provides the Board with the tools needed to provide oversight and direction.

The training will discuss fraud elements and the fraud triangle - comprised of pressures, opportunities, and rationalizations -- that describes why individuals commit fraudulent activities.

FUNDING IMPACT:

Define current or potential funding impact, including source of reimbursable funds: Information Item - No funding impact

Project Manager:	Elizabeth Sullivan
Project Department/Office:	INCP/MARC

TIMELINE:

Previous Actions	October 2016 – Board Audit Awareness Training - Internal Controls and Oversight Responsibilities
Anticipated actions after presentation	October 2018 – Board Audit Awareness Training - TBD

RECOMMENDATION:

N/A

Fraud Awareness Training

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Assistant Inspector General of Investigations

Fraud Defined

A false representation of a matter of fact – whether by works or by conduct, by false or misleading allegations or by concealment of what should have been disclosed – that deceives or is intended to deceive another so that the individual will act upon it to his or her legal injury.

Fraud must be **proven** by showing that the defendant's actions involved five separate elements:

1. False statement of a material fact
2. Knowledge on the part of the defendant that the statement is untrue
3. INTENT on the part of the defendant to deceive alleged victim deceive the alleged victim
4. Justifiable reliance by the alleged victim on the statement
5. Injury to the alleged victim as a result

Fraud Overview

- Organizations lose approximately 5% of revenue due to fraud
  - Asset Misappropriation – with median loss of $130,000
  - Corruption – with median loss of $200,000
  - Financial Statements – with median of $1 million

- Fraud duration 18 months
- Men (66.8%) vs. Women (33.2%)
- 40% of cases were detected via hotlines

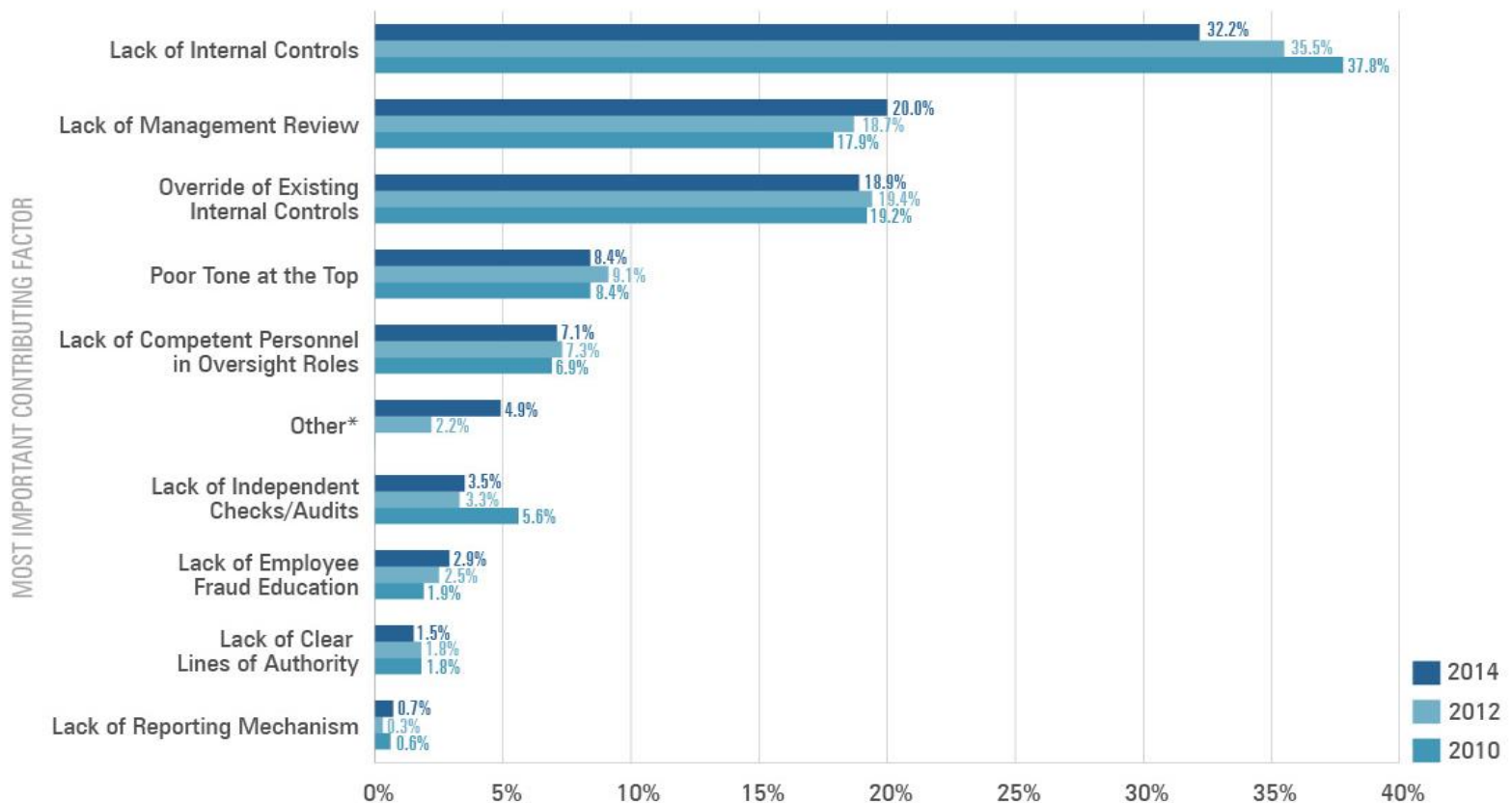Source -- 2014 ACFE Report To The Nations

What Does WMATA OIG Investigate?

- Theft / Embezzlement of Metro property or funds
- Falsification of official records
- Misuse of purchase cards amounting to theft
- Gross mismanagement and waste of Metro resources
- Criminal misuse of Metro resources
- Whistleblower Retaliation
- Procurement Fraud
  - Work not performed or not to specs
  - Unallowable costs, inflated costs, double billing
  - DBE eligibility
  - Conflicts of Interest, Favoritism and Influence

National Trends- Causes of Fraud

Figure 39: Primary Internal Control Weakness Observed by CFE

Lack of Internal Controls — 32.2% (2014), 35.5% (2012), 37.8% (2010)

Lack of Management Review — 20.0% (2014), 18.7% (2012), 17.9% (2010)

Override of Existing Internal Controls — 18.9% (2014), 19.4% (2012), 19.2% (2010)

Poor Tone at the Top — 8.4% (2014), 9.1% (2012), 8.4% (2010)

Lack of Competent Personnel in Oversight Roles — 7.1% (2014), 7.3% (2012), 6.9% (2010)

Other* — 4.9% (2014), 2.2% (2012)

Lack of Independent Checks/Audits — 3.5% (2014), 3.3% (2012), 5.6% (2010)

Lack of Employee Fraud Education — 2.9% (2014), 2.5% (2012), 1.9% (2010)

Lack of Clear Lines of Authority — 1.5% (2014), 1.8% (2012), 1.8% (2010)

Lack of Reporting Mechanism — 0.7% (2014), 0.3% (2012), 0.6% (2010)

MOST IMPORTANT CONTRIBUTING FACTOR

PERCENT OF CASES

*"Other" category was not included in the 2010 Report.

National Trends- Fraud in Transportation and Government

Fraud Scheme	Transportation	Government
	48 cases*	**141 cases***
Billing	33.3%	19.1%
Non-cash	33.3%	17.7%
Corruption	29.2%	36.2%
Check Tampering	20.8%	5.7%
Payroll	16.7%	15.6%
Expense Reimbursement	14.6%	12.8%
Financial Statement Fraud	10.4%	5.0%
Skimming	6.3%	11.3%
Register Disbursement	4.2%	0.7%
Cash Larceny	2.1%	10.6%

* Cases can include multiple types of frauds

* Source – ACFE Report to The Nations
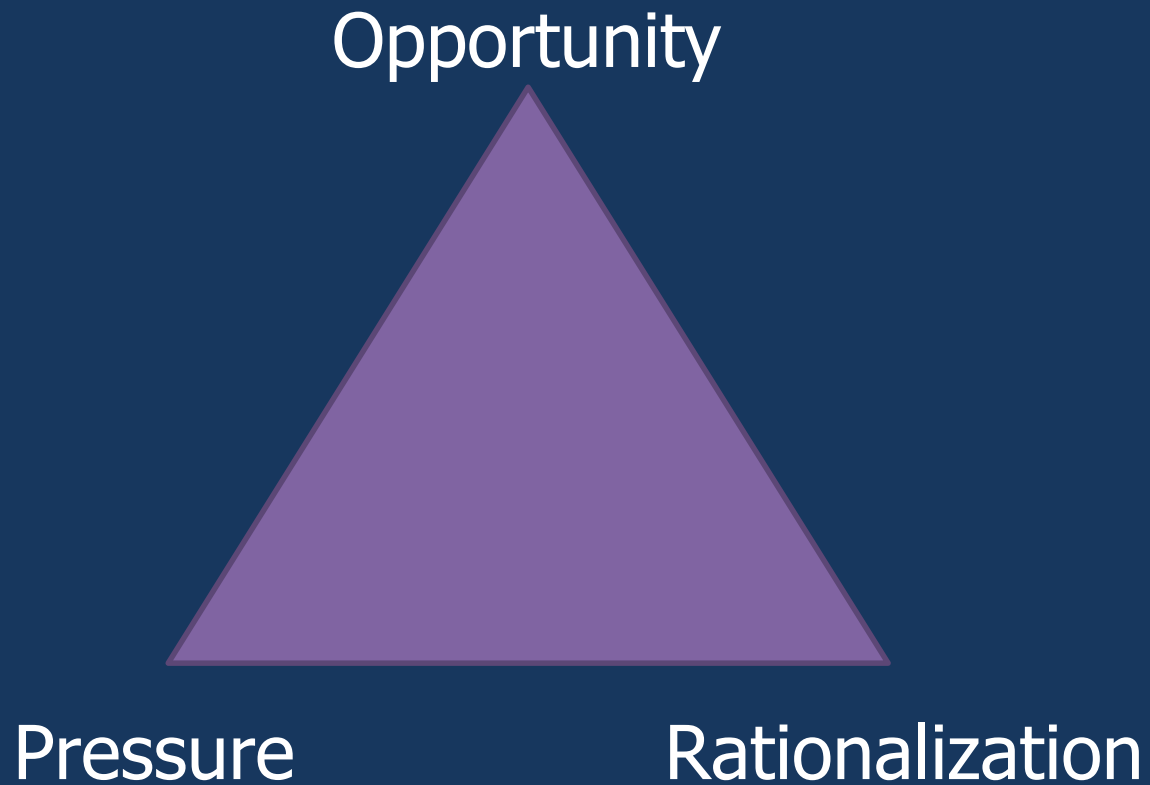
How Does Fraud Occur?

- Personally created opportunities
  - Familiarity with operations (including cover-up capabilities)
  - Close associations with suppliers, vendors, and other key people
  - Unwillingness to share duties

- Organizational characteristics:
  - Weak internal controls
  - Absence of periodic rotation in job duties
  - Constantly operating under a crisis environment
  - Little attention to details
  - Poor morale

Opportunity is the one issue WMATA can control!

What Can the Board Do to Prevent Fraud?

- Tone at the Top

- Realizing the importance of strong Internal Controls

- Ensure Internal Control findings are corrected timely

- Awareness of Red Flags

- Ensure Fraud Training and Awareness is provided to employees

- Continued support of the Office of Inspector General