

Austin Area Chapter Association of Certified Fraud Examiners

President's Corner

Tracy Bohmer, CFE, CPA

Our fall seminar was a success! The speakers were all interesting and provided a great variety of methods by which we can prevent and detect fraud. If you missed the seminar, Mike Garner has a thorough description of the speaker's topics in this month's newsletter. We especially want to thank the speakers and attendees of the seminar. The money received will provide future scholarships.

As we complete one seminar, we are already planning the next. Please let any Board member know if you hear of someone that might have something interesting to share with us for the monthly luncheon or next seminar.

As a reminder, check out our website: www.austinacfe.com. You will be able to meet the Board members, read about our history, register for meetings and seminars and check the calendar. Although you will still receive a notice of the upcoming meetings, the meeting information will be updated on the web site as soon as it is finalized.

Hope you all are having a great holiday season and managed to get in some well earned rest.

Chapter Meeting Schedule

Time: 12:00 to 12:50 p.m.
Lunch served promptly at 11:45 a.m.

Location: Nuevo Leon Restaurant
1501 East, 6th Street

Cost: Luncheon Only:
\$11.00 – Chapter Member
\$13.00 – Non-Chapter Member

This Month's Meeting

Date: January 5, 2009

Speaker: Mark Smith
Travis County District Attorney's Office

register on line: www.austinacfe.com
or

call 512-923-8656



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What You Missed

By Mike Garner, CFE, CIA

If you were not able to attend the December 10, 2008 chapter fall seminar, you missed presentations on “Ethical Dilemmas” and “How Governance, Controls, and Auditing Impact Fraud” by Mr. Phil Flora, Chief Audit Executive at the Texas Guaranteed Student Load Corporation (TG); “An FBI Perspective of Mortgage Fraud” by Special Agent Evan Rae with the FBI; and “Interview Techniques” by Mr. Jim Ratley, President of the Association of Certified Fraud Examiners.

Ethical Dilemmas - Mr. Flora reviewed the basics of organizational governance and the potential impact of cultivating fraud; discussed the importance of transparency and how it figures into the organizations systems of key controls; provided examples of ethical dilemmas and provided opportunities for small group discussion and reporting; discussed how organizational cultures impacts the pressure, opportunity, and rationalization conducive for fraud; discussed and involved those in attendance with small group exercises to identify what each of us can do to strengthen our organization’s culture to reduce the risk of fraud; and shared numerous reference materials and resources that could be used by those in attendance.

Successful governance characteristics includes a strong board and audit committee; an informed and responsive executive management; an effective and useful enterprise risk management program; knowledgeable and active external auditors and compliance regulators; active IT governance; legal compliance; organizational policies and processes; human resources policies and practices; Internal Audit; and an ethics program. Good governance includes active involvement by the board, executive management, and internal and external auditors promoting responsibility, integrity, and profitability. Transparency implies openness, communication, and accountability exhibited through open meetings, ethical disclosure, budgetary reviews, and audits. Mr. Flora also discussed the differences between being ethical (successful governance) and being legal (compliance).

How Governance, Controls, and Auditing Impact Fraud – Mr. Flora provided the primary aspects of risk management; discussed how an organization benefits from a strong risk management process; discussed the primary organizational controls that reduce the risk of fraud & abuse; reviewed internal audit’s role in identifying and investigating fraud; discussed how governance, controls, and auditing impact fraud; identified potential improvement areas; and provided reference materials and resources for future use.

In this presentation Mr. Flora emphasized the importance of risk management which he defined as a process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization’s objectives.

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AUSTIN AREA CHAPTER OF
THE ASSOCIATION OF CERTIFIED FRAUD EXAMINERS
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In this framework he discussed risks, risk appetite (the amount of risk an entity is willing to accept in pursuit of value), risk adverse (avoidance and aversion can stem from an unconscious or intangible action or position), risk assessment (establishing information regarding acceptable levels of risks), and enterprise risk management (designed by the board and executive management to identify potential events that may affect the organization, to management risk to be within its level of risk appetite, and to provide reasonable assurance in the achievement of the organization's objectives). He also discussed risk tolerance, residual risks, controls, control processes, risk treatments, benefits of risk management, and organizational controls that reduce fraud.

Mortgage Fraud – FBI Perspective – Special Agent Evan Rae discussed Mortgage fraud in the context of white collar crime. He related mortgage fraud to corporate fraud, health care fraud, identity theft, insurance fraud, securities fraud, bankruptcy fraud, and money laundering. He showed the increasing trend of mortgage fraud in pending FBI cases and the significant increase between 2006 and 2007. He indicated that this trend will probably continue to escalate in 2008. He discussed the relationship of fraud to mortgage originations, subprime loans, and SAR violations and dollar losses. He identified the fraud hotspots which includes Texas. Mortgage Fraud includes fraud for housing (this is usually done by homeowners trying to get into a house and if they continue to pay their mortgage may never be identified) and fraud for profit (usually industry professionals acting in collusion with multiple participants). Fraud for profit is the major FBI concern.

Types of Mortgage fraud schemes include property flipping, silent 2nd, straw buyer, builder/seller assistance, inflated appraisal, foreclosure schemes, equity skimming, air loans, and debt elimination schemes. Mortgage fraud is committed by appraisers, buyers, developers, sellers, realtors, mortgage brokers, financial institution employees, title company employees, accountants and others. In closing he discussed several fraud cases including one in the Austin area and emphasized that mortgage fraud in continuing to increase, is often linked with other frauds, and is affected by demand, home prices, and interest rates.

In this presentation Mr. Flora emphasized the importance of risk management which he defined as a process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives. In this framework he discussed risks, risk appetite (the amount of risk an entity is willing to accept in pursuit of value), risk adverse (avoidance and aversion can stem from an unconscious or intangible action or position), risk assessment (establishing information regarding acceptable levels of risks), and enterprise risk management (designed by the board and executive management to identify potential events that may affect the organization, to management risk to be within its level of risk appetite, and to provide reasonable assurance in the achievement of the organization's objectives). He also discussed risk tolerance, residual risks, controls, control processes, risk treatments, benefits of risk management, and organizational controls that reduce fraud.

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Interview Techniques – Mr. Ratley shared with us his extensive knowledge and experience in interview techniques through a presentation style that kept everyone focused on his every word. His presentation included interviewing witnesses, evaluating deception, process for admission-seeking interviews, the importance and key points in getting signed statements, and the report writing process. His presentation included numerous examples for each interview step and area that he discussed.

Speaker's Biography

Mark D. Smith, C.F.E.

Having grown up in Austin, Mark began his career with the Austin Police Department in 1975. He was promoted to Sergeant in 1984 and spent the bulk of his law enforcement career as an investigator, assigned to work theft, forgery, fraud and white-collar crime cases. Upon his retirement from the police department in 2003, Mark was commissioned by the Travis County District Attorney's Office and is currently working as an investigator assigned to the Motor Fuel Tax Fraud Unit.

Mark was designated as a Certified Fraud Examiner in 1995 and most recently completed his term as President of the Fraud Investigators Association of Texas. In addition, Mark has qualified as an expert witness in regards to questioned document examination and has testified in both State and Federal courts concerning handwriting identification.

The Spotlight's On You!

A special feature focusing on members of the Austin Area Chapter of ACFEs

Andy Prough has been a member of the
ACFE

for the past **7** years.

But maybe you didn't know...



Job Description:

CFE

What I'm working on now:

Healthcare billing review

Best part of my job:

I enjoy learning a variety of Medical billing systems and procedures, and learning to spot the errors and problems

Ambition and/or Goals:

Complete law school

Years in audit field:

17

Hobbies:

Martial arts. Also fun things with my son: rifle target practice, weightlifting and throwing the football, playing RockBand and Guitar Hero with him on his PlayStation.

Favorite Movie:

Enemy at the Gates

Last books I read:

Hobbit, The Fellowship of the Ring (with my son)

Favorite foods:

Making sushi and hot & spicy Chinese food at home

My pet(s):

A 2-year old Labrador/Dalmation mix. He is fun to throw the ball with, and good for home security.

It's a good day when:

If I can get enough exercise early in the morning, I feel great all day.

What I would do with a surprise afternoon off:

Go for a nice long jog with my dog

Most people probably don't realize:

My tour guide in China was also the guide for former President Bill Clinton.