



## Lessons from a large fraud

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### Highlights

- While fraud is never a good thing, there are lessons to be learned from every fraud.
- System safeguards, such as appropriate system access, promote strong internal controls.
- The annual security review process is an opportunity to improve your agency's internal controls.
- The annual security certification is due to MMB by March 6.

Nathan Mueller, born and raised in Minnesota, embezzled \$8.5 million between 2003 and 2007 from his employer, insurance company giant ING. He is now a convicted felon who served a 97-month federal prison sentence, and he likely will be paying restitution for the rest of his life.

This case is notable because of its ties to Minnesota, the amount of money involved, the length of time the scheme went undetected, and because the embezzlement was made possible by weak internal controls, including excessive system access, inadequate segregation of duties, and breaches of other IT safeguards. There are lessons for all of us to learn from Mr. Mueller's fraud.

**System Access** – Mueller had expert knowledge of the company's enterprise resource planning (ERP) financial system. He was allowed to request and approve checks up to \$250,000. He was also able to hide the payment entries for fraudulent checks with offsetting entries to journal accounts he controlled. No one with check approval authority should be allowed to record the related entries into the accounting records.

There are two objectives when assigning system access to individual employees:

**Objective 1:** Assign only the access needed for individuals to perform their job responsibilities. Assigning less than the minimum needed could cause workflow disruptions, while giving more access than needed increases the risk of fraud.

**Objective 2:** Maintain proper segregation of duties. Ideal segregation of duties involves separating (1) transaction approval, (2) custody of assets, and (3) recordkeeping or accounting. It also involves having an independent person periodically compare or reconcile accounting records with assets on hand.

**Password Security** - Mueller and his co-workers often logged into the system as one another to get work done and to cover each other's absences. This practice allowed Mueller to request checks under his co-

worker's identity and then approve the checks under his own authority, thus avoiding suspicions that might have been raised by his requesting and approving his own transactions. This is an excellent example of why we should never share our passwords with anyone. Ever!

**Segregation of Duties** – Mueller was authorized to pick up the fraudulent checks he requested and approved. This duty enabled him to take custody of the checks and deposit them into a bogus vendor bank account he had set up. Allowing one individual to request and approve payments, and take custody of the resulting check is a poor segregation of duties and a good recipe for fraud.

**Fraud Red Flags** - Mueller used his ill-gotten gains to fund a lavish lifestyle. Ultimately, his ex-wife became suspicious that he was living beyond what his salary should allow (a common red flag for fraud). She talked with one of Mueller co-workers, who investigated and then reported him. Had Mueller's supervisors or co-works been more observant and questioning of his lifestyle, the fraud might have been detected much sooner. Studies show that tips are the most common way that frauds are detected. For this reason, we all need to watch for unusual events that could be red flags for fraud, and report any suspicious activities through our agency's established reporting channels.

**Suggested Action Steps:** Accounting and human resource managers, as well as agency security administrators, are currently completing an annual system security review and verification exercise. Managers should view this assignment as an opportunity to improve agency internal controls. As you complete the review of your staff security roles for reasonableness and proper segregation of duties, keep in mind the lessons from the Mueller fraud case.

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