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## **Anatomy of a Fraud**

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Dave Cotton is chairman of Cotton & Company LLP, Certified Public Accountants. Cotton & Company is headquartered in Alexandria, Virginia. The firm was founded in 1981 and has a practice concentration in assisting Federal and State government agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than two dozen Federal inspectors general as well as numerous other Federal and State agencies and programs.

Cotton & Company's Federal agency audit clients have included the U.S. Government Accountability Office, the U.S. Navy, the U.S. House of Representatives, the U.S. Capitol Police, the U.S. Small Business Administration, the U.S. Bureau of Prisons, the Millennium Challenge Corporation, the U.S. Marshals Service, and the Bureau of Alcohol, Tobacco, Firearms and Explosives. Cotton & Company also assists numerous Federal agencies in preparing financial statements and improving financial management, accounting, and internal control systems.

Dave received a BS in mechanical engineering (1971) and an MBA in management science and labor relations (1972) from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago, Graduate School of Business (1977 to 1978). He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Dave served on the Advisory Council on Government Auditing Standards (the Council advises the United States Comptroller General on promulgation of **Government Auditing Standards**—GAO's yellow book) from 2006 to 2009. He served on the Institute of Internal Auditors (IIA) Anti-Fraud Programs and Controls Task Force and co-authored **Managing the Business Risk of Fraud: A Practical Guide**. He served on the American Institute of CPAs Anti-Fraud Task Force and co-authored **Management Override: The Achilles Heel of Fraud Prevention**. Dave is the past-chair of the AICPA Federal Accounting and Auditing Subcommittee and has served on the AICPA Governmental Accounting and Auditing Committee and the Government Technical Standards Subcommittee of the AICPA Professional Ethics Executive Committee. He authored the AICPA's 8-hour continuing professional education course, **Joint and Indirect Cost Allocations—How to Prepare and Audit Them**. He is presently serving on the AICPA's Performance Audit Standards Task Force and chairs the Fraud Risk Management Task Force, sponsored by COSO and the ACFE.

Dave served on the board of the Virginia Society of Certified Public Accountants (VSCPA) and on the VSCPA Litigation Services Committee, Professional Ethics Committee, Quality Review Committee, and Governmental Accounting and Auditing Committee. He is member of the Greater Washington Society of CPAs (GWSCPA). He is a member of the Association of Government Accountants (AGA) and past-advisory board chairman and past-president of the AGA Northern Virginia Chapter. He is also a member of the Institute of Internal Auditors and the Association of Certified Fraud Examiners.

Dave has testified as an expert in governmental accounting, auditing, and fraud issues before the United States Court of Federal Claims and other administrative and judicial bodies.

Dave has spoken frequently on cost accounting, professional ethics, and auditors' fraud detection responsibilities under SAS 99, *Consideration of Fraud in a Financial Statement Audit*. He has been an instructor for the George Washington University masters of accountancy program (**Fraud Examination and Forensic Accounting**), and instructs for the George Mason University Small Business Development Center (**Fundamentals of Accounting for Government Contracts**).

Dave was the recipient of the AGA's 2006 Barr Award ("to recognize the cumulative achievements of private sector individuals who throughout their careers have served as a role model for others and who have consistently exhibited the highest personal and professional standards") as well as AGA's 2012 Educator Award ("to recognize individuals who have made significant contributions to the education and training of government financial managers").



## *Let's Do Something Different ...*

Let's ...

- Take a deeper look at some of the characteristics of fraud;
- Determine what the typical fraud perpetrator looks like;
- And then ...

*Let's solve a crime!*



What is the **Most** Important Reason for Having a Strong Internal Control System?





## Internal Control

*“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.”*

--Council of Sponsoring Organizations of the  
Treadway Commission



## Keep this in Mind...

- Few things are more devastating, demoralizing, and tragic than the discovery that someone you trusted has committed fraud
- There is, however, one thing that is considerably more devastating, demoralizing, and tragic ...





## Will Your Auditors Find Fraud?

- ✓ The fact of the matter is that fraud is *very* difficult to detect
- ✓ Even when fraud is present and fraud risk factors are evident and responded to properly, fraud is *very* hard to prove
- ✓ Prevention is far easier than detection
- ✓ Strong internal control is the best means of prevention
- ✓ Establishing and maintaining strong internal control is *management's* responsibility



## True or False?

- ✓ Internal control is *BORING!*
- ✓ It can't happen to us.
- ✓ The best control is hiring people we trust.



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Title search: Anatomy of a Fraud

Also available as part of the eCourse

[The Importance of Internal Controls for Nonprofits: Identifying Opportunities for Fraud and Perspectives from the Nonprofit C-Suite](#)

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