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# **PUBLIC SECTOR FRAUD**

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**Certified Public Accountants and Consultants**  
New Jersey. New York. Pennsylvania. Maryland. Florida. Colorado.

# BIO



- Senior Manager at WithumSmith+Brown
- CPA, CFE, CISA, CITP
- Over 15 years experience as a contractor in the Federal IG community
- Audits, forensic accounting and fraud investigation support, inspections and other services
- Treasurer Metro DC Chapter of ACFE

# ACFE



- ❖ Association of Certified Fraud Examiners formed, in part, by Joseph T. Wells, CFE, CPA in 1988
- ❖ Wells' Vision: Like-minded professionals who collaborate and work toward a common goal
- ❖ ACFE Goal: Reduce WCC & instances of fraud
  - ✓ Worldwide provider of anti-fraud training
  - ✓ Multi-disciplinary, globally recognized professional designation
- ❖ Produces *Fraud Magazine* and the Fraud Examiners Manual and the Report to the Nations on Occupational Fraud and Abuse

# METRO WASHINGTON CHAPTER OF ACFE



- ❖ Has almost 200 members in the Metro area – includes CFEs and non-CFEs
- ❖ Provide more than 20 CPE's per year covering topics from FCPA, AML/Virtual Currency, to Legal Updates, Procurement Fraud
- ❖ 4-5 Networking Events
- ❖ Find Us on Facebook & Linked In
- ❖ Find Us at [www.acfedc.org](http://www.acfedc.org)

# AGENDA



1. General Fraud Theory
2. Fraud Stats in the Public Sector
3. Recent Fraud Cases
4. Increasing Deterrence and Prevention
5. Increasing Detection
6. Questions

# GENERAL FRAUD THEORY

## BASIC STATISTICS



- Criminal vs Civil Fraud
- ACFE – currently estimates average organization loses 5% of its revenue annually to occupational (internal) fraud
- Median duration of 18 months.

# GENERAL FRAUD THEORY

## WHO AND WHY



- Fraud triangle, diamond, others
- Who commits fraud?
- What does a fraudster look like?

# GENERAL FRAUD THEORY

## DETERRENCE, PREVENTION, DETECTION



- Deterrence and perception of detection
- Internal controls
- Difference between preventing fraud and detecting fraud

# PUBLIC SECTOR FRAUD



- According to the ACFE 2010 Report to the Nations on Occupational Fraud:
  - 16% of the fraud cases studied occurred at government agencies (almost 300 cases)
  - 46% of government fraud cases discovered by tip
  - 15% discovered by internal audit
  - Median loss to government agencies was \$100,000 compared to private company of over \$230,000

# PUBLIC SECTOR FRAUD

## TYPES OF FRAUDS



- Program fraud – Can include both federal and state components
  - Medicare/Medicaid
  - Unemployment Insurance
  - Social Security
- Procurement Fraud
  - GAO's High Risk Series
- Grant and Contract Fraud
  - At Federal level more \$ given out in grants
  - Over \$750 billion in grants in FY 2009
  - Recovery Act over \$275 billion in grant awards (over 88,000 grants)
- Embezzlement
- Corruption
  - Bribery and kickbacks

# PUBLIC SECTOR FRAUD

## HOW FRAUDS ARE DISCOVERED



- TIPS/Hotline Complaints
- Referrals from management
- Proactive reviews
- Audits
- Task forces in known problem areas
  - E.g. Health Care Fraud Prevention and Enforcement Action Team (HEAT) initiative

# RECENT FRAUD CASES- MEDICARE



- Testimony of Ike Odelugo before House Subcommittee on Investigations on March 3, 2011
- HHS IG Testimony – over 1,700 health care fraud investigations opened in past year, with 900 criminal and civil actions and \$3 billion in expected recoveries
- Special Agent Omar Perez testimony

# RECENT FRAUD CASES

## DOD



- “Former U.S. Army Major Convicted for Bribery”  
March 1, 2011
- Illegally funneled \$60 million in Iraq war contracts
- Took bribes in exchange for official contracting action on behalf of the U.S. Army
- Latest in a line of 16 defendants to be convicted in this scandal at a military base in Kuwait
- Convicted on 22 counts, face decades behind bars
- Forfeited \$27 million gained through the scheme

# RECENT FRAUD CASES

STATE GOVERNMENT - FRED MONEM, INTERNATIONAL  
FUGITIVE



- Worked for the Oregon prison system as a food buyer
- Charged with taking \$1.2 million in kickbacks from food vendors
- Wife pled guilty in 2009 to participating in the scheme
- Four food vendors pled guilty to bribing him
- Monem hiding in Iran trying to negotiate a short prison sentence.
- “I always did my job right. I just take some of their profit” “It was win-win situation”

# RECENT FRAUD CASES

## PURCHASE CARD



- For a period of about 5 years, employee of Georgia Tech used her P-card to charge over \$300,000 of personal expenses
- Purchases included tvs, computers, electronics, waverunner, power tools, frozen drink maker, tailgating gear
- Expenses were charged to a federal grant award
- Created fake receipts to make them appear to be legitimate charges
- Plead guilty to 17 counts and sentenced to 32 months prison,
- Last known address is Coleman Medium FCI in Florida
- Ordered to pay restitution and property was seized

# RECENT FRAUD CASES

## RECOVERY ACT (ARRA)



- Recovery Act passed in February 2009
- Funds started flowing spring and summer of 2009
- Average duration until detection 18 months . . .
- A 2010 report indicated just 293 “consequential investigations” out of the nearly 200,000 prime and subcontracts in ARRA, which is two-tenths of a percent.

# RECENT FRAUD CASES

## RECOVERY ACT (ARRA)



**RECOVERY.GOV**  
TRACK THE MONEY

Recovery.gov is the U.S. government's official website that provides easy access to data related to Recovery Act spending and allows for the reporting of potential fraud, waste, and abuse.

**REPORT FRAUD, WASTE & ABUSE**

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» **Oversight Actions**

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**See Where the Money Is Going**



» Go to the Recipient Reported Data Map

### OVERSIGHT ACTIONS

The Recovery Board encourages citizens to report suspected [fraud, waste, or abuse](#). All reports are closely reviewed, and if any warrant investigation, they are referred to the appropriate Inspector General.

As of January 31, 2011, the Recovery Board and the federal Inspectors General have received 5,703 complaints (up from 5,394 at the end of December 2010) of wrongdoing associated with Recovery funds.

- 1,154 have triggered active investigations
- 264 cases were closed without action

The federal Inspectors General have also completed 1,015 reviews of activity involving Recovery funds – many of these reviews have resulted in recommendations for improving the uses of these funds.

To ensure that legal and administrative requirements of certain Recovery programs are met, the Inspectors General offer [training](#).

# HOW TO INCREASE DETERRENCE AND PREVENTION



- Increase perception of detection and the watchful eye
- Looking for the red flags – Top 3 behavioral issues cited by ACFE
  - living beyond their means
  - financial troubles
  - Control issues – unwillingness to share duties
- Internal controls alone are not enough

# HOW TO INCREASE DETERRENCE AND PREVENTION



- Publicize fraud cases – to people most likely to commit fraud
- Centralize fraud resources
  - AGA Intergovernmental Fraud Toolkit to go live May 2011
  - Tools, videos, checklists, resources and other practice aids

[http://www.agacgfm.org/intergovernmental/fraud\\_toolkit.aspx](http://www.agacgfm.org/intergovernmental/fraud_toolkit.aspx)

# AGA INTERGOVERNMENTAL FRAUD TOOLKIT



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## Intergovernmental

Partnership Home | Contact Staff | Steering Committee | Partnership Projects | Governance Tenets | Resources | Implementation Best Practices | Keeping Track of the Recovery Act | Work Groups |

### Fraud Prevention Tool Kit Project Description

Call for Volunteers  
June 2010

#### Project: Develop a Fraud Prevention Tool Kit

AGA's Partnership for Intergovernmental Management and Accountability (Partnership) is looking for up to 12 volunteers to develop a fraud prevention tool kit.

AGA established the Partnership to open the lines of communication among governments. The Partnership is comprised of high-ranking officials from the federal, state and local levels of government and higher education. You may visit the Partnership online at [www.aqacqfm.org/intergovernmental/index.aspx](http://www.aqacqfm.org/intergovernmental/index.aspx).

**Issue:** The need to detect fraud in government programs has always been important to government officials and the public alike. But as government budgets become more and more strained, fraud has become a bigger target. Governments are ramping up efforts to detect fraud and internal controls are getting increased attention. But, it is not enough to detect fraud. More needs to be done to prevent fraud from occurring in the first place.

Initial Implementation Guidance issued by the Office of Management and Budget (OMB) for the American Recovery and Reinvestment Act of 2009 (ARRA) stressed that reporting and other responsibilities under ARRA were designed to meet five crucial accountability objectives, including the mitigation of fraud, waste, error and abuse.

While implementing ARRA, a number of states encountered unrelated, yet well-publicized instances of fraud, ranging from the manipulation vendor records to the counterfeiting of government checks. While these problems may be related to the current economic condition, they also exposed that a good system

# HOW TO INCREASE DETERRENCE AND PREVENTION



- **Additional Anti-Fraud Resources:**
  - AICPA ([www.aicpa.org](http://www.aicpa.org))
  - ACFE ([www.acfe.com](http://www.acfe.com))
  - CIGIE (Council of the Inspectors General on Integrity and Efficiency ([www.ignet.gov](http://www.ignet.gov)))
- Increase training for front line personnel
- Don't over-rely on external audits
- Conducting fraud risk assessments to assess points of vulnerability and response to weaknesses

# INCREASING DETECTION



- If you don't look for it, you probably won't find it
- More and better tips
- More accidents
- Making reporting easier

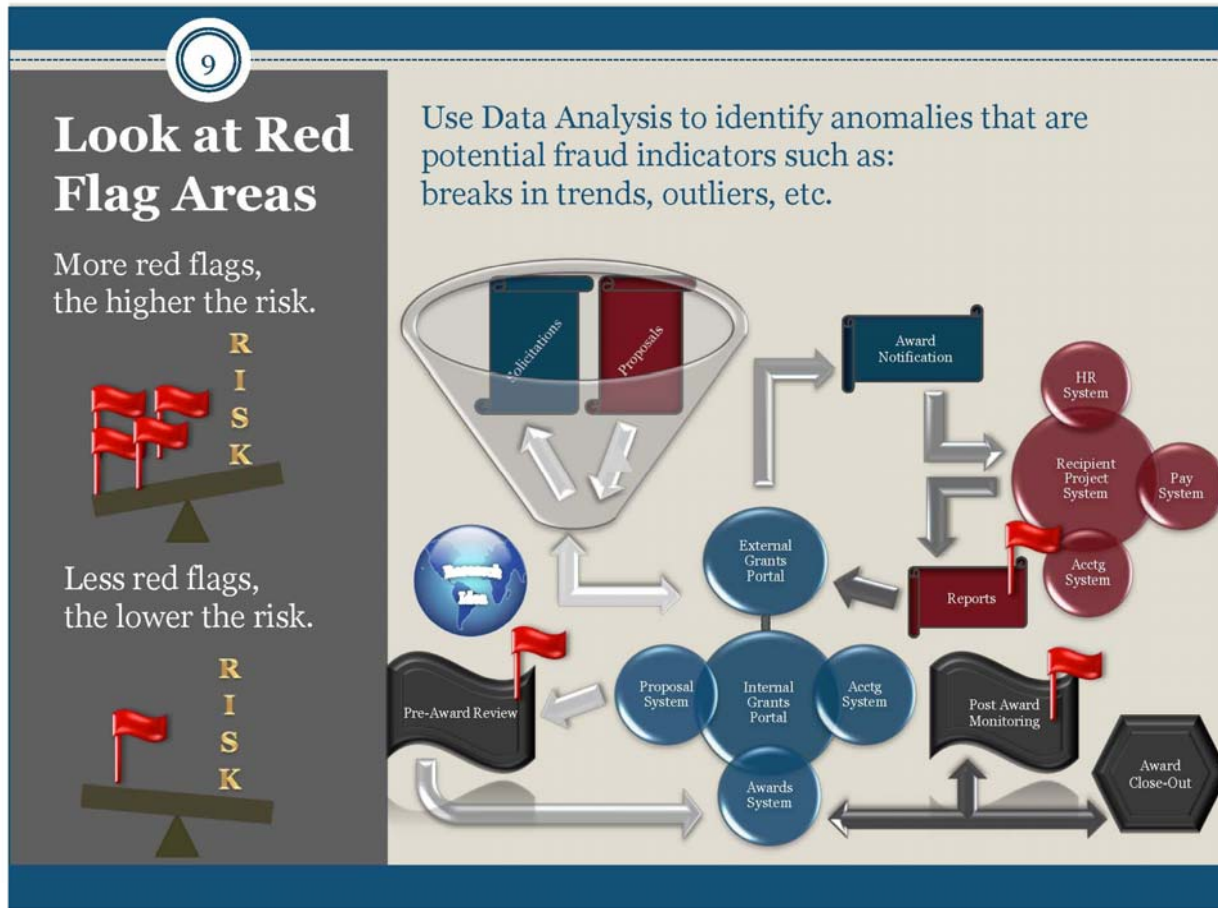
# INCREASING DETECTION

## NEXT GENERATION



- Proactive reviews – use of data mining/business intelligence techniques
  - Trend toward *auditmating*\* these activities
  - Building fraud profiles based on actual fraud cases on a program by program basis
- 
- \*A new word I think I just made up but everyone in the room knows exactly what it means

# INCREASING DETECTION NEXT GENERATION



# QUESTIONS



# CONTACTS



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