Fraud
Awareness and Prevention

Comptroller of the Commonwealth

Goal of Fraud Awareness and Prevention Training

- Fraud Awareness and Prevention Training is part of The Office of the Comptroller's mission to assist departments in assuring taxpayers that funds are expended as intended

  - Goal of this session is to raise awareness of fraud risks and methods for prevention and detection

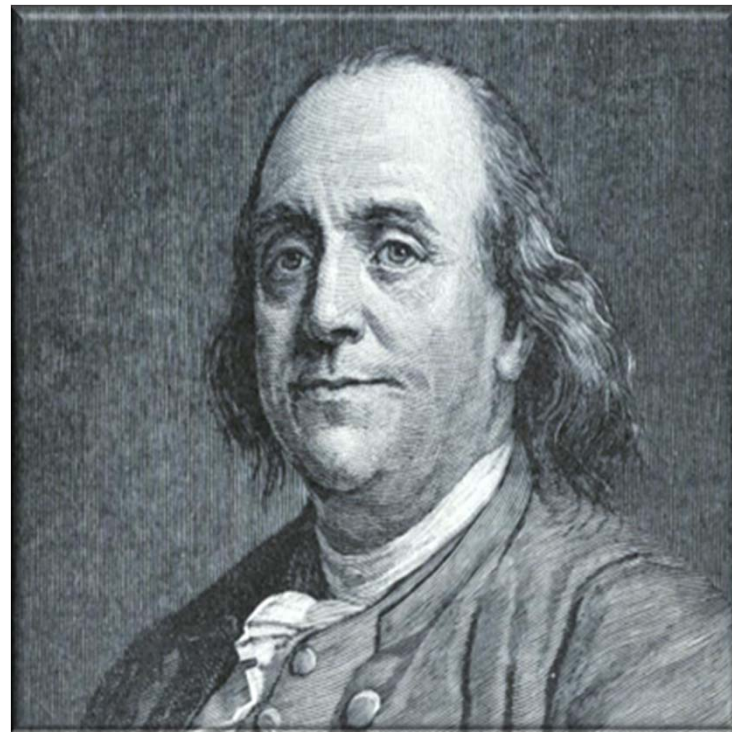## "Think like a taxpayer, because you are one"

Agenda

- Fraud Awareness

- Types of Fraud

- Consequences of Fraud

- Activity

- Fraud Red Flags

- Risks, Red Flags, and Control Examples

- Prevention

- Detection

- What's Next?

"There is no kind of dishonesty into which otherwise good people more easily and more frequently fall than that of defrauding the government."

-Ben Franklin

What is Fraud?

- Any intentional illegal acts characterized by deceit, concealment, or violation of trust

- Frauds are committed by individuals and organizations to:

  - obtain money, property, or services

  - avoid payment or loss of services

  - secure personal or business advantage

Source: The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. www.theiia.org

The General Laws of Massachusetts

PART I. ADMINISTRATION OF THE GOVERNMENT
TITLE III. LAWS RELATING TO STATE OFFICERS
CHAPTER 29. STATE FINANCE
Chapter 29: Section 66. Violation of state finance laws; penalties

Section 66. Any officer or employee who knowingly violates, authorizes or directs another officer or employee to violate any provision of this chapter, or any rule or regulation promulgated thereunder, or any other provision of law relating to the incurring of liability or expenditure of public funds, shall be punished by a fine of not more than one thousand dollars or by imprisonment in a jail or house of correction for not more than one year, or both.

Embezzlement cases on the rise

http://www.eagletribune.com/

- Often, they are people their employers trust
- They are the last people you would think to be wary of
- Sometimes it's taxpayer money
- It's happened everywhere: at town hall, in a hospital accounting department, at high-tech firms, and even at a church
- "It's usually driven by debt or vices, like gambling," Lawrence police Chief John Romero said. "We've had a few cases recently."
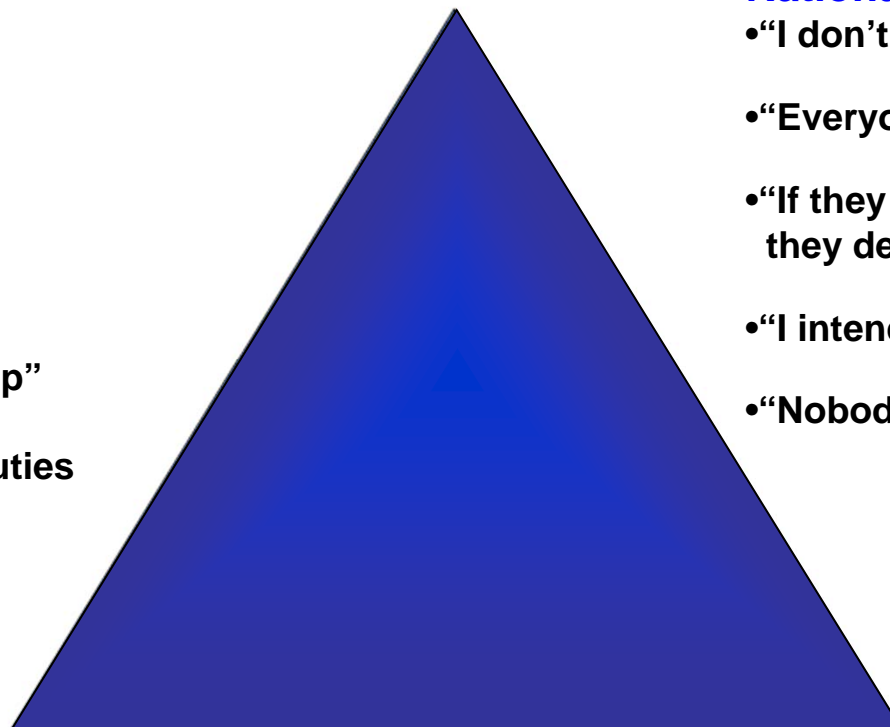
November 22, 2009

The Fraud Triangle

Opportunity:
- Internal Controls
    - None in place
    - Un-enforced
    - Un-monitored
    - Ineffective

- Too much trust

- Poor "Tone at the Top"

- No segregation of duties

Rationalization:
- "I don't get paid what I am worth!"

- "Everyone else is doing it"

- "If they don't know I'm doing it, they deserve to lose the money"

- "I intended to pay it back"

- "Nobody will miss the money"

External Pressure / Motivation:
- Debt, Greed
- Lifestyle Needs
- Illicit Activities: Vices, Gambling, Drugs
- Life Pressures

Internal Pressure / Motivation:
- Pressure to Perform
- Too Much Work

The Fraud Triangle

We have limited
control over:

- Pressure

- Rationalization
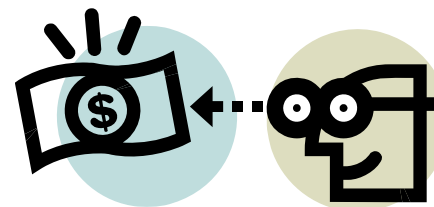
**We have the most
control over:**

- **Opportunity**

Who commits fraud?

- People outside the organization
- People in positions of responsibility with the ability to override controls
- Often trusted and respected employees
- People with an understanding of the system and processes
    - "Inside Jobs" are easier

Money?   +   People?   =   Fraud

10-80-10 Rule

The 10-80-10 "rule" refers to a general assumption of the breakdown
of the population and the likelihood of fraud occurrences:

- **10%** of the population will NEVER commit fraud. This is the type of person that will go out of their way to return items to the correct party

- **80%** of the population might commit fraud given the right combination of **opportunity**, **pressure**, and **rationalization**

- **10%** of the population are actively looking at systems and trying to find a way to commit fraud

*Source **NASACT** and the Oregon State Controller's Division*

Average life of a fraud

- Average duration of 18 months[+]

- 91 percent of perpetrators did not stop at one single fraudulent transaction*

[+]Source: *Association of Certified Fraud Examiners 2010 Report to the Nation on Occupational Fraud & Abuse.* **www.acfe.com**

*Source: **Profile of a Fraudster Survey 2007, KPMG**

What are the concerns for management?

- 32% of executives expect some form of fraud or misconduct to rise in their organizations over the next year

- 65% reported that fraud and misconduct is a significant risk for their industry

- The greatest concern for 71% is the potential for a loss of public trust

KPMG Fraud Survey 2009

Continued…

What are the concerns for management? (Continued)

- 66% reported that inadequate internal controls at their organizations enable fraud and misconduct to go unchecked

- 33% lacked protocols on how to remedy control breakdowns

- Executives acknowledge room for improvement across most elements of their antifraud efforts:

  - Employee communication and training

  - Technology-driven continuous auditing and monitoring techniques

  - Fraud and misconduct risk assessment

KPMG Fraud Survey 2009

"It can't happen in my office"

http://fraudtalk.blogspot.com/

- Texas Couple Indicted On Charges Of Embezzling More Than $220K From Non-Profit Health Care

- Massachusetts City Employee Accused Of Embezzling More Than $1/2 Million

- Former South Carolina DMV Worker Charged In $300K Embezzlement Scheme

- Former Ohio Municipal Deputy Treasurer Sentenced For $3 Million Embezzlement

- Pennsylvania Municipal Manager Charged With Embezzling $178K

- Former Longtime City Employee In Washington State To Plead Guilty Of Embezzling $1.3 Million

- Pennsylvania Municipal Utility Worker Sentenced In $475K Embezzlement Case

- Former Louisiana Non-Profit Bookkeeper Pleads Guilty To Embezzling $1 Million

- Former Louisiana Non-Profit Bookkeeper Pleads Guilty To Embezzling $1 Million

- North Carolina Couple Charged With Embezzling $360K From Church

- Former Illinois Youth Football League Treasurer Charged With Embezzling $112K

- Former Mississippi Municipal Worker Indicted For $900K Embezzlement Scheme

- Former Indiana Crime Stoppers Treasurer Charged With Embezzling $100+K

- Montana Woman Pleads Guilty To Embezzling "Hundreds of Thousands" From School

- Former North Carolina Sheriff Lieutenant Accused Of Embezzling Nearly $100K

- Illinois Non-Profit Exec Pleads Guilty To Embezzling $667K

"It can't happen here"

JULY 12, 2010

- A DOC lieutenant indicted on charges of financial conflict of interest, two counts of procurement fraud, and three counts of larceny

- These charges are in addition to those brought against the lieutenant in 2008 for stealing more than US $100,000 in state money to buy firearms and other law enforcement equipment for personal use

- The new charges stem from the lieutenant's relationship with a firearms vendor — selected with the lieutenant's help — who won a contract to provide the DOC with firearms, ammunition, and accessories

- The lieutenant allegedly bought sporting goods and other items using a personal line of vendor credit without a DOC purchase order with the understanding that the cost would be deducted from the DOC's line of credit

- Prosecutors also allege that the lieutenant stole and sold ammunition in exchange for credit at major retailers as well as checks made payable to him

"It can't happen here"

A Multi-million dollar, international fraud and money laundering scheme targeted vendors of state governments from West Virginia, Kansas and Ohio, as well as the Commonwealth of Massachusetts, which resulted in the diversion of $3.379 million in state payments routed to fraudulent bank accounts.

The fraudsters were able to hijack legitimate vendor payments using information acquired through the Internet and otherwise to complete direct deposit authorization forms for Deloitte Consulting LLP, Unisys Corporation, and Electronic Data Systems, Inc.:

- Targeted state vendors who routinely received significant payments

- Created phony entities with names similar to the legitimate vendors

- Produced fraudulent bank accounts in the names of the targeted vendors

- Mailed authorization forms and voided starter checks from fraudulent accounts

- The unsuspecting states sent the payments to the fraudulent bank accounts
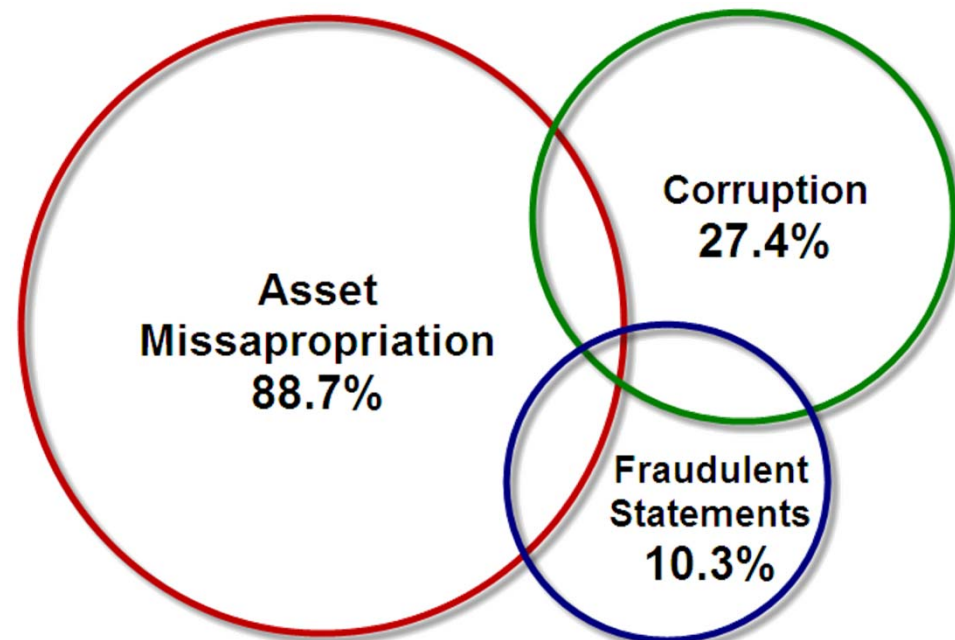
Types of Fraud

Types of Fraud-
"The Big Three"

- **Asset Misappropriation**
  Theft of cash, inventory, services, and other assets
- **Corruption**
  Conflict of Interest, Bribery
- **Fraudulent Statements and Reporting**
  Financial and Non-financial
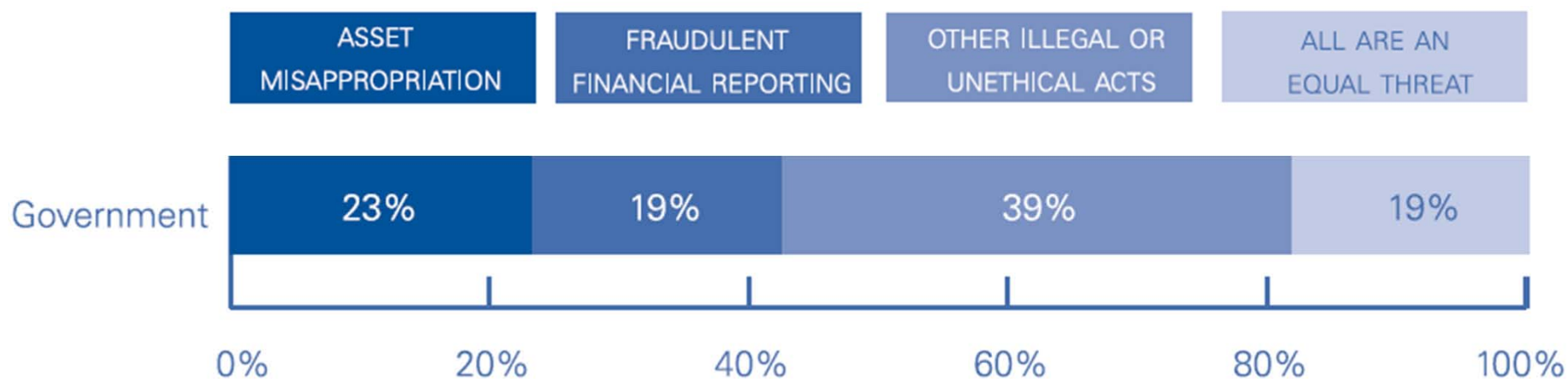
Distribution of Fraud Across the "Big Three"

Asset Missapropriation 88.7%

Corruption 27.4%

Fraudulent Statements 10.3%

Source: Association of Certified Fraud Examiners 2010 Report to the Nation on Occupational Fraud & Abuse. www.acfe.com
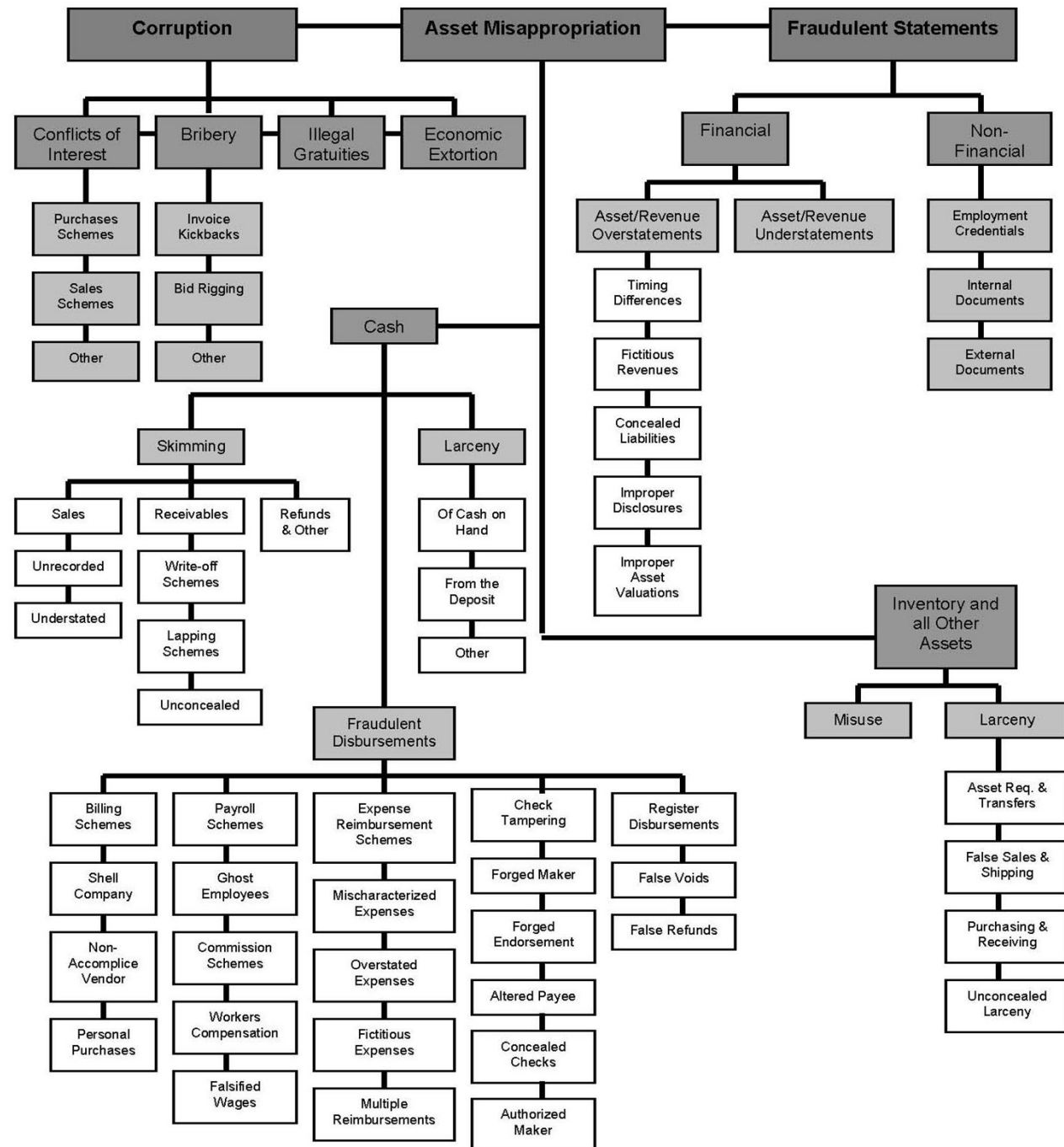
KPMG Fraud Survey 2009 Results

Q. Which of the following categories of fraud and misconduct pose the most significant risk to your organization? (Results by industry)

	ASSET MISAPPROPRIATION	FRAUDULENT FINANCIAL REPORTING	OTHER ILLEGAL OR UNETHICAL ACTS	ALL ARE AN EQUAL THREAT
Government	23%	19%	39%	19%

0%   20%   40%   60%   80%   100%

KPMG Fraud Survey 2009

Uniform Occupational Fraud Classification System

Corruption — **Asset Misappropriation** — **Fraudulent Statements**

Corruption
- **Conflicts of Interest**
  - Purchases Schemes
  - Sales Schemes
  - Other
- **Bribery**
  - Invoice Kickbacks
  - Bid Rigging
  - Other
- **Illegal Gratuities**
- **Economic Extortion**

Asset Misappropriation

Cash
- **Skimming**
  - Sales
    - Unrecorded
    - Understated
  - Receivables
    - Write-off Schemes
    - Lapping Schemes
    - Unconcealed
  - Refunds & Other
- **Larceny**
  - Of Cash on Hand
  - From the Deposit
  - Other
- **Fraudulent Disbursements**
  - Billing Schemes
    - Shell Company
    - Non-Accomplice Vendor
    - Personal Purchases
  - Payroll Schemes
    - Ghost Employees
    - Commission Schemes
    - Workers Compensation
    - Falsified Wages
  - Expense Reimbursement Schemes
    - Mischaracterized Expenses
    - Overstated Expenses
    - Fictitious Expenses
    - Multiple Reimbursements
  - Check Tampering
    - Forged Maker
    - Forged Endorsement
    - Altered Payee
    - Concealed Checks
    - Authorized Maker
  - Register Disbursements
    - False Voids
    - False Refunds

Inventory and all Other Assets
- **Misuse**
- **Larceny**
  - Asset Req. & Transfers
  - False Sales & Shipping
  - Purchasing & Receiving
  - Unconcealed Larceny

Fraudulent Statements

Financial
- **Asset/Revenue Overstatements**
  - Timing Differences
  - Fictitious Revenues
  - Concealed Liabilities
  - Improper Disclosures
  - Improper Asset Valuations
- **Asset/Revenue Understatements**

Non-Financial
- **Employment Credentials**
- **Internal Documents**
- **External Documents**

Source: Association of Certified Fraud Examiners 2010 Report to the Nation on Occupational Fraud & Abuse. www.acfe.com

Types of Fraud –
Asset Misappropriation

- Asset misappropriations include the misuse or theft of assets

  - Money

  - Inventory

  - Property / Fixed Assets

  - Information (Personally Identifiable Information "PII")

    - **See information regarding Executive Order 504**

Types of Fraud –
Asset Misappropriation

- **Internal**
  - Cash Theft
  - Accounts Receivable (phony customers or credits)
  - Inventory Fraud (theft)
  - Accounts Payable Frauds (phony suppliers)
  - Payroll Frauds (ghost employees, stealing "time")
  - Inflated Expense Reports by Employees

- **External**
  - Theft
  - False Claims, Delivery of Goods or Services for ineligible Receiver
  - Vendor Fraud
    - Payroll Frauds
    - Inflated Expense Reports by Employees of Vendor
    - Sub Recipients
    - Mis-charging

Types of Fraud – Corruption

- Abuse of Power

- Management Override

- Collusion

- Blackmail

- Conflict of Interest

- Bribery

- Illegal Gratuity

- Extortion

- Kickback

Types of Fraud – Fraudulent Statements

- Misapplication of accounting rules
  - Mischaracterization as "one-time" expenses

- Misrepresentation or omission of information

- Vendor / Sub-Recipient False Reporting
  - Inflating Costs

Types of Fraud – Social Engineering

- Social engineering is the act of manipulating people into performing actions or divulging confidential information

- Is too much of your information available to the public?

  Forms? Job Aids? "Decoder Rings"

  - Instructions on what information is needed, how to complete, and who to send to?

- Employees want to be helpful

  - Develop protocols for dealing with information requests
  - Practice "Professional Skepticism"

From: WEBMAIL UPGRADE SERVICE CENTER [mailto:info@service.ma.us]
Sent: Monday, May 04, 2009 8:04 AM
To: undisclosed-recipients
Subject: Verify And Update Your State.ma.us Email Account.

Verify And Update Your State.ma.us Email Account.

Dear State Email Account User:
We are sending this mail to you in regards of congestion due to our services,
Due to the congestion of State users,state.ma.us will be shutting down all
unused

Accounts, You will have to confirm your E-mail by filling out your Login
Information below to our webmail upgrade services.

*USERNAME:

*PASSWORD:

*DATE OF BIRTH:

We thank you for your prompt attention to this matter. Please understand that
this is a security measure intended to help protect your account. We apologise
for any inconvenience.

Warning Code:VX2G99AAJ

Thank you for using state.ma.us
The state.ma.us Team

Scareware
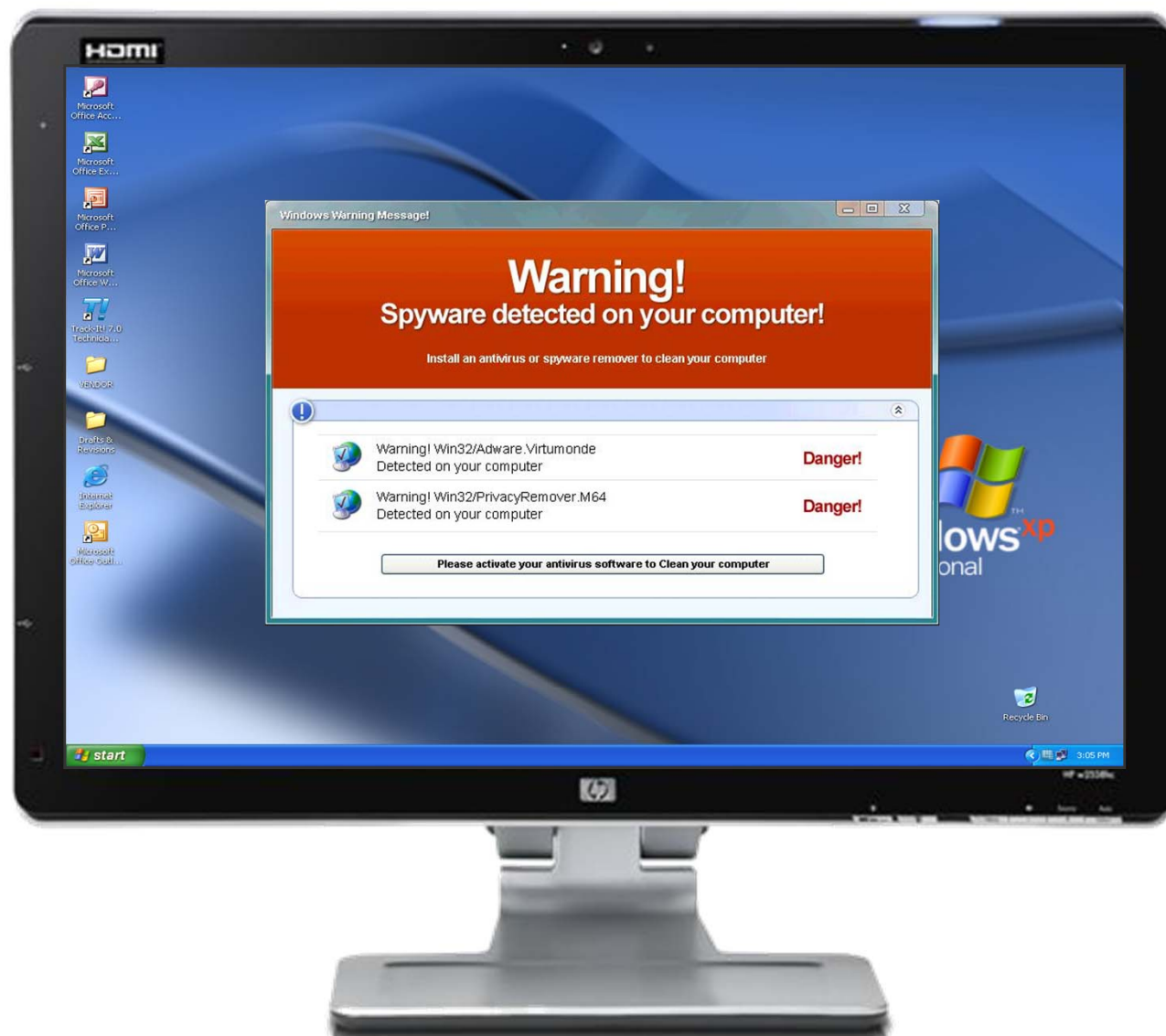
Don't be a victim of Social Engineering

- Be suspicious of unsolicited phone calls or emails from individuals asking about employees or other internal information

- If an unknown individual claims to be from a legitimate organization:
  - Try to verify his or her identity directly with the company
  - Get contact information from previous statements or your vendor contact records

- Do not reveal personal or financial information in email and do not respond to email solicitations for this information - This includes following links sent in email

- Pay attention to the URL of a web site

- Don't open attachments from unknown individuals

- Install anti-virus software, firewalls, and email filters

Don't be a victim

Trust, But Verify
&
Practice Professional Skepticism

Consequences of Fraud

Consequences of Fraud-
Financial Cost

- Losses estimated to be **5** percent of revenue*

- Loss of assets

- Potential loss of future funding

- Potential fines, repayment of funding

*Source: Association of Certified Fraud Examiners 2010 Report to the Nation on Occupational Fraud & Abuse. **www.acfe.com**

FY 2009 Revenue

FY 2009
Government Fund Types Revenues in Millions

Taxes, $18,513

Federal reimbursements, $9,139

Fees, investment earnings, etc, $2,800

Motor vehicle licenses and registrations, $383

Assessments, $894

Lotteries, $4,649

Federal grants, $2,646
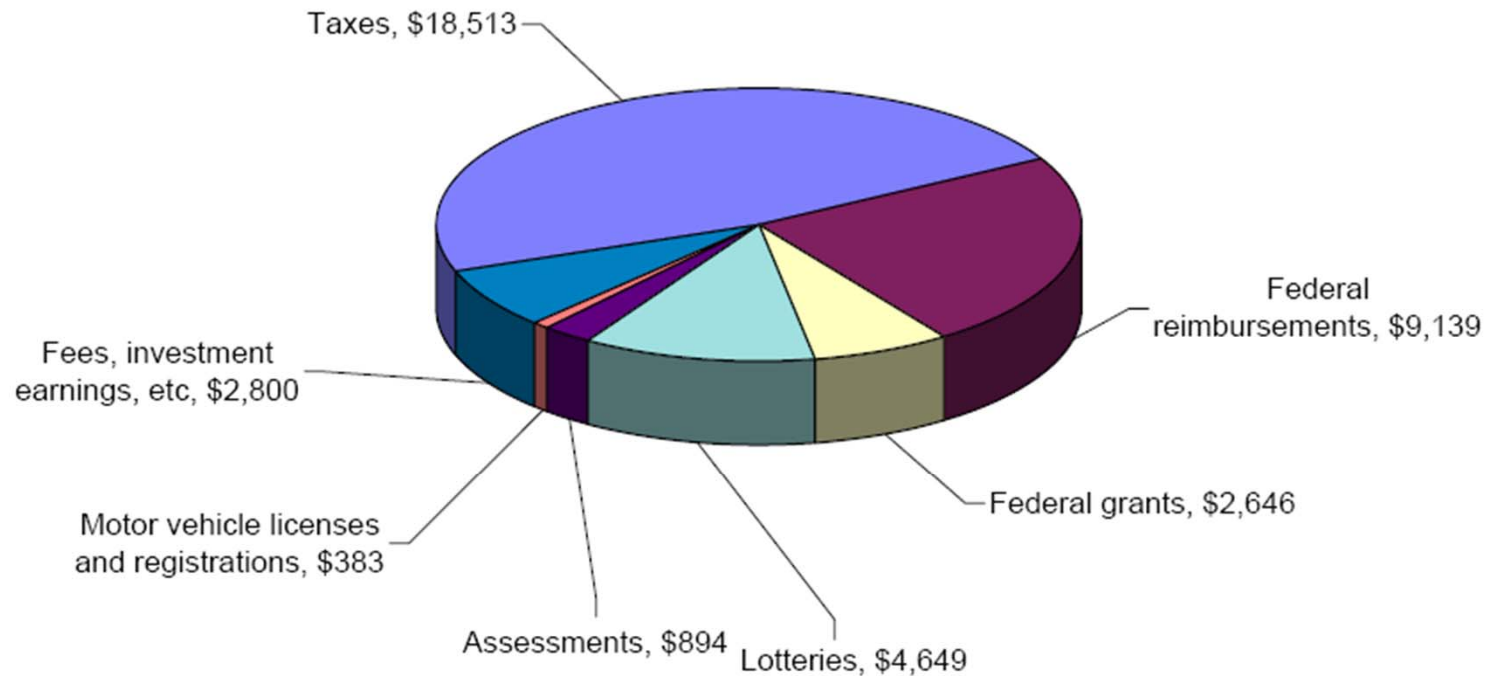
$ 1.9 Billion

Headlines you won't see…

Consequences of Fraud -
Damage to Public Image / Reputation

- **Traditional News Media**
  - Newspapers
  - TV
  - Radio

- **Electronic Word of Mouth**
  - Twitter
  - Facebook
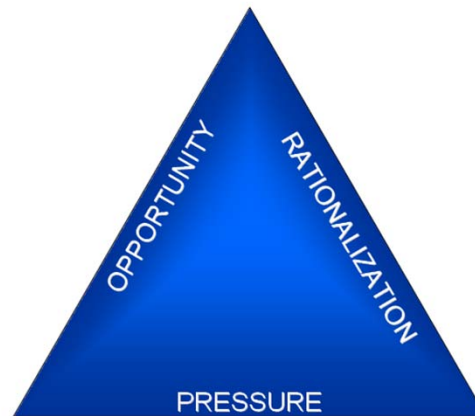 - Blogs
  - Message Boards
    - Globe & Herald

Scenario

- You are the town purchasing director assigned the task of selling surplus property on eBay.
  - Could fraud occur?
  - What are the potential consequences?

  - Think you are busy now? Put this on your plate…

Official accused of selling town property on eBay November 2009

- Town purchasing director sold surplus equipment on eBay and had winning bidders write the checks out in his name

- Amount stolen close to $30,000. According to police reports, he said he stole to buy his girlfriend an engagement ring - He also claimed depression

- Actions were first brought to light on Nov. 10, when a resident asked Assistant Town Manager why the purchasing director was asking people to make checks out to him and not the town

- Town Manager apologized for the "cloud" the scandal has cast over the town

Official accused of selling town property on eBay November 2009 (Continued)

- The town did have procedures in place to track fixed assets, and had begun to improve on those when the embezzlement occurred

- Selectmen last week charged the town's Audit Committee with investigating and making recommendations on how to improve internal controls

- Town Manager: "We will, of course, work diligently to design and implement new procedures that will make a reoccurrence of what happened very, very difficult."

- The town is also looking at various ways to recover the stolen money:
  currently targeting frozen retirement funds, seeking restitution through the courts, and filing an insurance claim

Official accused of selling town property on eBay November 2009 (Continued)

- Purchasing director had worked for town since January of 2008 - He had an unblemished 20-year military record, he worked for several years in state government, and he came with excellent references

- "We did a thorough job in checking out his background. There was nothing to indicate in his behavior or work product that he was capable of the illegal activity he engaged in."

- Town Manager called the embezzlement "disheartening on both a personal level and to all of our employees who have worked so hard to improve and put in place proper financial policies and procedures."

Consequences of Fraud - Internal Consequences

- Damages Organizational Integrity / Credibility

- Damages Morale

- Creates an Environment of Mistrust

- Increases focus from Everyone

- Nobody wants to be under that "Cloud"

Consequences of Fraud - Consequences to You if Caught

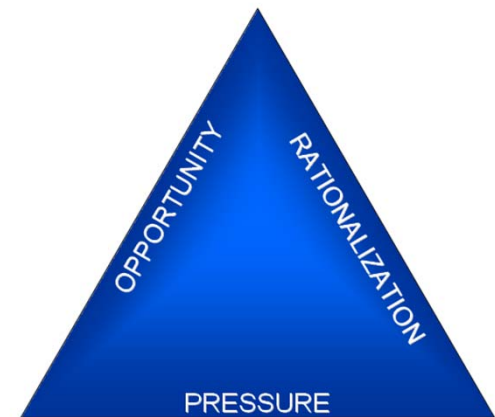# Activity

Fraud Red Flags

Do you have….?

- Large amounts of cash in hand

- Small items with a high cash value (laptop, thumb drive, Blackberry)

- Easily convertible assets (tools, vehicles, PII)

- Lack of segregation of duties

- Management with ability to override

- Managers and Employees with access to significant assets

- Poor physical safeguards over cash and other assets

- Lack of mandatory time off for employees performing key control functions

- Inadequate supervision, especially where employees are in remote locations

- Too much information on your website

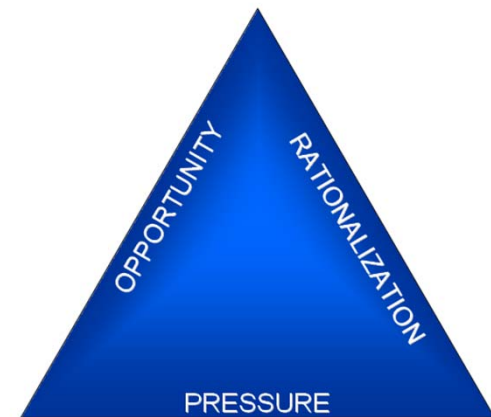# Do you have….?
Lack of segregation of duties

Same person:

- Opens mail with checks

- Records checks received

- Prepares bank deposit

- Deposits money into bank

- Reconciles bank statements

OPPORTUNITY RATIONALIZATION

PRESSURE

Do you have….?
Resource Constraints

- Not enough staff to perform the current work

- Not enough staff to supervise work performed

- Lack of funds for monitoring tools

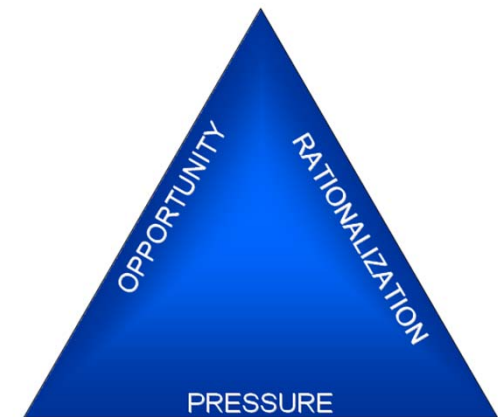- Lack of staff time to devote to anti-fraud activities

Do you have….?
Times of change

- Change in leadership

- Reorganization

- Layoffs

- Upgrades / Promotions
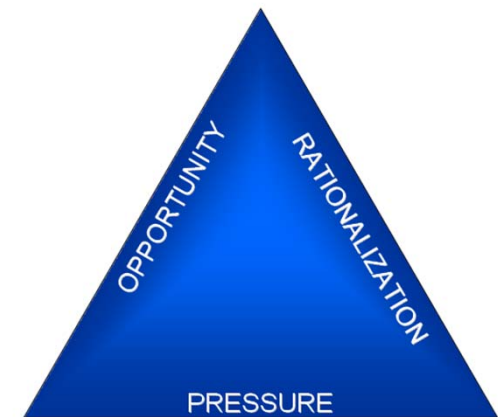
- New programs without new resources

Do you have….?
External Pressure on Employees

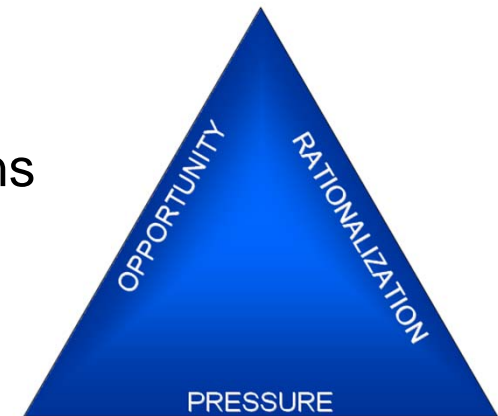Recognize and acknowledge the pressure when possible.

- Financial Issues (Mortgage, Student Loans)

- Medical Bills

- Divorce

- Child Support

Do you have….?
Changes in Employees Behavior

- Unwilling to take vacation / time off

- Working off hours: early, late, weekends

- Refusing promotion to a different area

- Overly protective of information and reluctant to train others

- Social relationship with vendor

- Change in lifestyle, suddenly living beyond means

OPPORTUNITY RATIONALIZATION PRESSURE

Risks, Red Flags, and Controls

Risks, Red Flags and Controls

Risk	Red Flags	Controls
Fraudulent billing	Fraudulent invoices Mischaracterized expenses (personal vs. business) Inflated billing Double billing Lack of proof of delivery Equipment / people not on jobsite	Site inspections Confirmation of delivery
Product substitution	Complaints about quality Poor quality construction Lack of inspection False inspection report Allegations of bribery of inspectors	Adequate project monitoring and oversight Independent testing Agency verification of inspection reports

Risks, Red Flags and Controls

Risk	Red Flags	Controls
Collusive bidding, price fixing or bid rigging	Apparent connections between bidders: common addresses, personnel, or telephone numbers Different contractors make identical errors on bids. Tailored Specifications (e.g., specific or restrictive requirements in files which seems to restrict eligibility) Similar pricing Consistently high pricing	Adequate vendor pre-screening Independent price verification and pricing analysis
Conflict of interest	Apparent connections between employees and vendors: - Common addresses or telephone numbers - Tax ID - Ownership interest Unnecessary purchases Sole source justification	▪Adequate vendor screening ▪Data analysis / tools ▪Formal procurement process ▪Codes of conduct

Risks, Red Flags and Controls

| Risk	Red Flags	Controls
Falsified wages	Large or unusual overtime payments to selected employees Large or unusual hours worked in a given pay cycle Time card hours differ from job order hours Hours on payroll reports differ from time-card hours or job order Number of days worked and amount of salary are inconsistent with occupation	Review of supporting documents Adequate time tracking mechanisms Authorization and approval of hours worked Multiple sources of information
Social Engineering	Unexpected inquires from unverified callers	Verification identity with organization Develop a procedure for dealing with information requests and the type of information you can and cannot give out

Prevention

Most Important Contributing Factor to Fraud
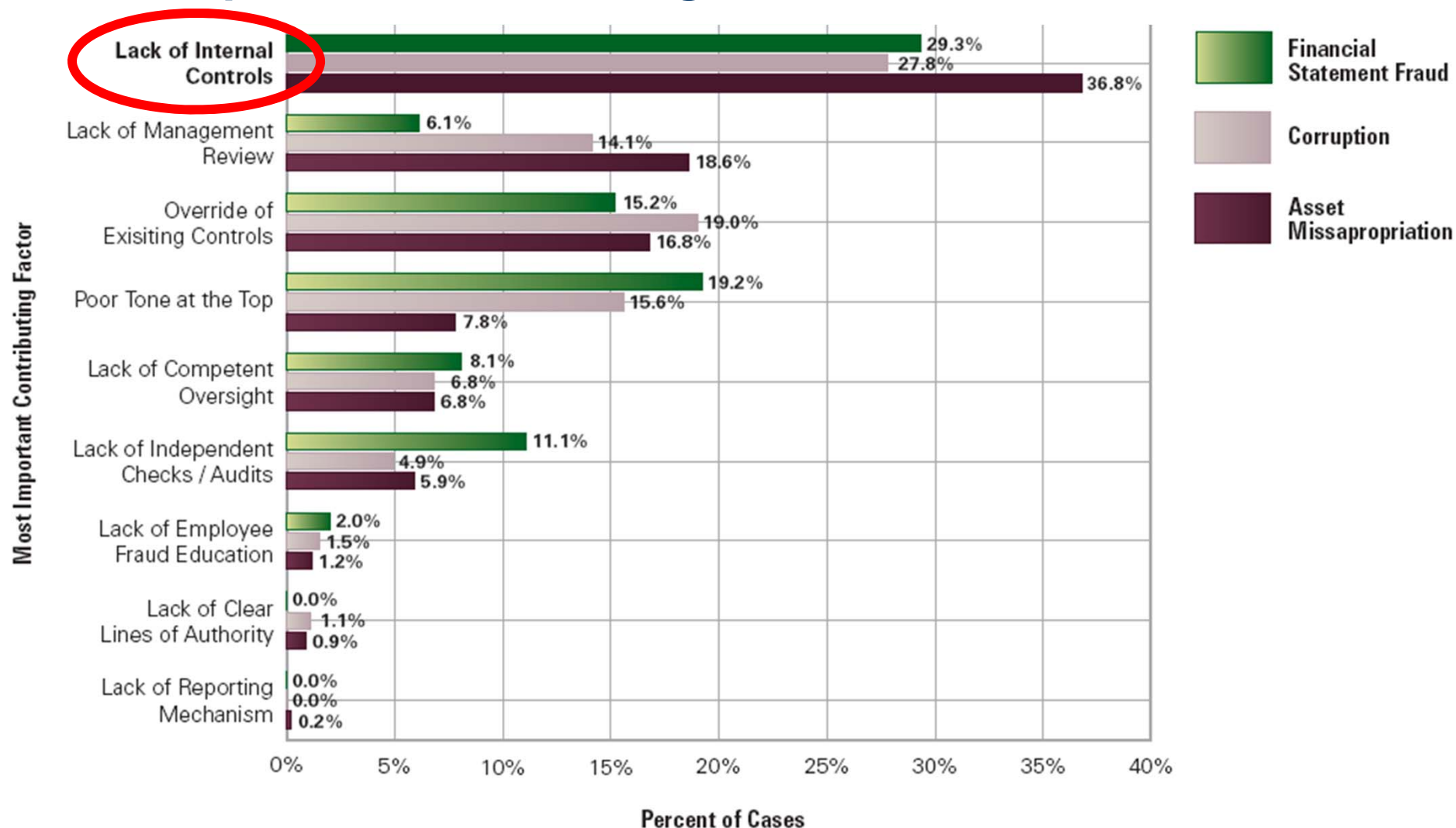
Source: Association of Certified Fraud Examiners 2010 Report to the Nation on Occupational Fraud & Abuse. www.acfe.com

Internal Controls

- Update your Internal Control System (per Chapter 647 of the Acts of 1989), consisting of the Internal Control Plan and the policies and procedures that govern your daily activities

- Attend our "Risk Management" course for Internal Control guidance

Tone at the Top

The atmosphere created at the top affects the attitude of all employees:

- Employees witness what their bosses are doing

- Zero tolerance for unlawful, unethical, or questionable behavior

- Reward employees for integrating personal and organizational loyalty

- Write It (Policies and Procedures, Memos)

- Communicate It (Meetings, Trainings)

- Demonstrate It (Lead by Example)

Ethics Statement / Code of Conduct

- **Define** the culture

- **Set** expectations

- **Remind** employees about their roles and responsibilities for maintaining an ethical work environment

- **Maintain** awareness of reporting mechanisms available to employees

- **Reinforce** the ramifications of improper or unacceptable behavior in order to deter others from similar actions

State Ethics Mandatory Education and Training Requirements

Training & Communication

Training:

- Training as standard part of new employee orientation

- Annual certification for existing employees

Communication:

- Why don't employees tell what they know - Because no one asks?

- Interview employees, ask if they suspect fraud in the organization

- Ask employees - "How would you do it?"

Policy and Procedure

- Be certain to have them in writing

- Make sure they are readily accessible

- Train

- Enforce

- Monitor for effectiveness

- Update

- Have everyone sign off that they received and read

Segregation of Duties

Verify that segregation of duties are in place:

- Apply consistently across the agency and in all locations.

- Example - Reconciliation of balances and activities is performed by someone who does not report them.

If resource constraints prevent adequate segregation of duties:

- Cross-train

- Job rotation

- Add additional sign off / review

- Think creatively; share duties with other areas / units / departments

Do Not Share your UAID   MMARS Security Policy

- All new users must be adequately trained on relevant fiscal policies and should not be allowed to enter or approve transactions unless they have undergone training

- Sharing of security id's is prohibited

- Monitor staff use of MMARS regularly

Hard Copy / Paper Files

Physical Access to paper files:

- Are paper files with PII locked up or out in the open for all to see?
- Contracts
- Pay stubs
- Tax files
- Personal files (credit card bills)

Disposal:

- Do you throw paper with PII the in recycling or trash barrel? – Dumpster Divers
- Do you have a shredding policy?
- MGL CHAPTER 93 I. DISPOSITIONS AND DESTRUCTION OF RECORDS

Information Technology

- ## Logical Access to Systems

    - Is it appropriate? Are the roles appropriate?

    - Is it reviewed?

    - Is it terminated in a timely manner?

    - Is sensitive data encrypted?

    - Do sessions time out?

    - Do passwords expire? Can they be repeated?

- ## Physical Access

    - How secure is your server room?

    - Do you have a Laptop, equipment inventory system

    - Does your copy machines store a digital image of every document scanned or copied?

    - Is weekend work allowed or need to be pre-approved?

Employee Screening

- Past Employment Verification

- Criminal Conviction Checks (CORI)

- Reference Checks

- Education and Certificate Verification
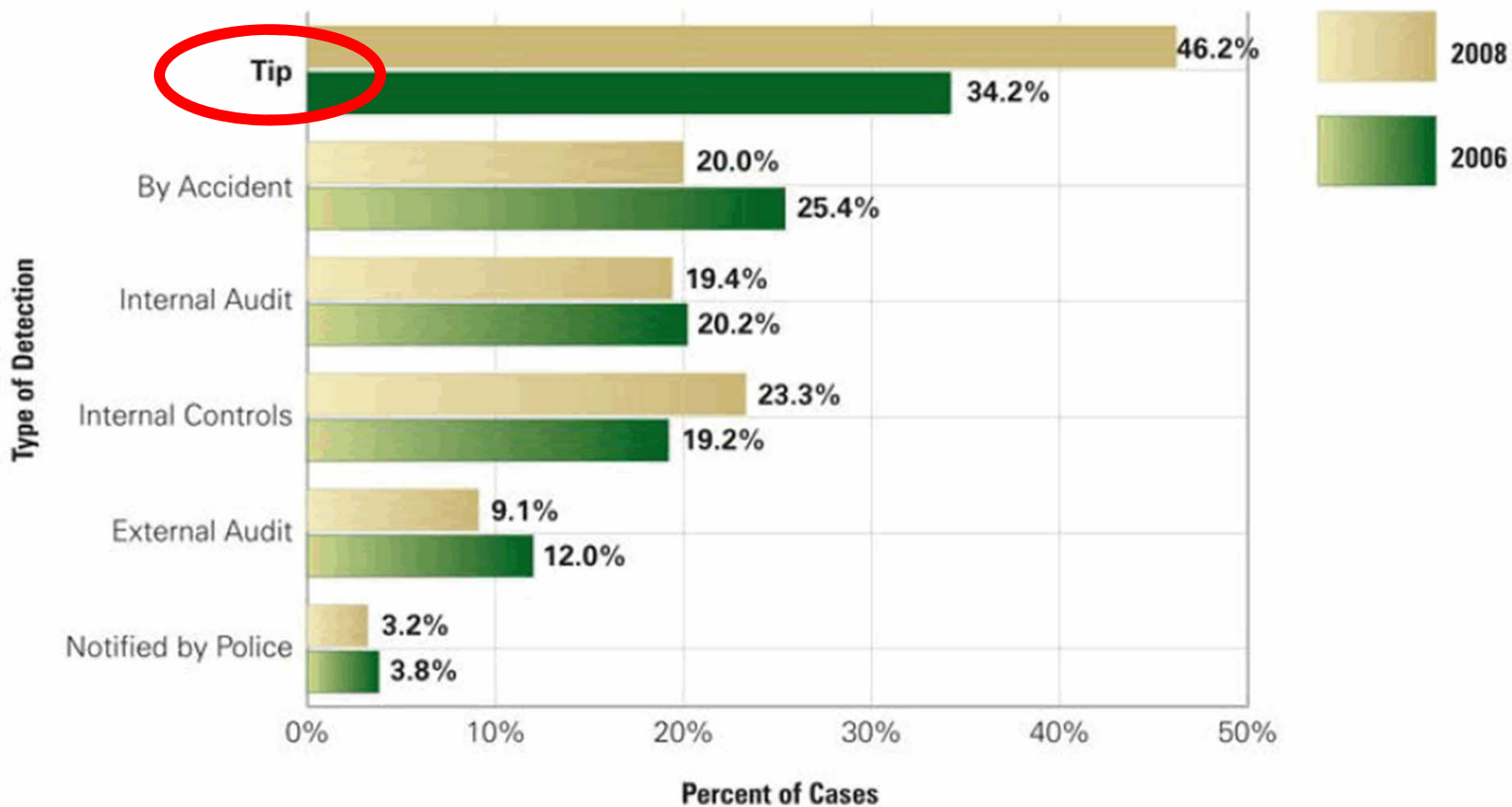
- Get the Consent of the Candidate

Executive Branch Application for Employment

Detection

Initial Detection of Fraud

Exceeds 100% as single instances may span different Detection Methods

Source: Association of Certified Fraud Examiners 2010 Report to the Nation on Occupational Fraud & Abuse. www.acfe.com

Whistleblower Mechanisms

Commonwealth Hotline Numbers:

- Inspector General   (800) 322-1323
  Confidential hotline to report suspected fraud, waste or abuse in government

- Attorney General - Fair Labor Helpline   (617) 727-3465
  To report violations of minimum wage and overtime laws and requirement for timely payment of wages

- Division of Unemployment Assistance   (800) 354-9927
  To report unreported wages or persons collecting benefits while working

- Office of the State Auditor   (617) 727-6200
  For state agencies to report variances, shortages or thefts of funds or property

Comptroller of the Commonwealth

Mass.Gov

CTR Home   Mass.Gov   State Agencies   State Online Services

MARTIN BENISON, COMPTROLLER

Welcome to Office of the Comptroller

OUR ORGANIZATION

Mission Statement

Staff Directory [Excel]

Comptroller Events

Organization Charts

Comptroller Regulations

Advisory Board

Employment Opportunities

KEY RESOURCES

Statewide Key Contact Lists

Whistleblower Hotlines

Department Advisory Group Members

Bills and Laws

State Budget

Help Desk

MMARS Glossary

Expenditure Classification Handbook [Word]

ONLINE SERVICES

* PayInfo   * VendorWeb

Welcome! This website is your "ONE-STOP ACCESS POINT" to information and resources for the Office of the Comptroller.

Prevention of Fraud, Waste, and Abuse

The Office of the Comptroller has initiated a strategy to promote awareness in the prevention and detection of fraud, waste, and abuse. Fraud prevention and detection must be a part of each employee's job. The tools below will assist you in preventing fraud.

- Internal Controls
- Whistleblower Hotlines [Word]
- Toolkit for Departments to Combat Fraud, Waste and Abuse [Word]

American Recovery and Reinvestment Act

Research and Statistics

* Cities and Towns
* Commonwealth Employees
* Commonwealth Statistics
* more...

Guidance for Vendors

* VendorWeb
* Forms
* Policies for Vendors
* CommPASS
* more...

Guidance for Agencies

* Training
* Internal Controls
* Fiscal Year Updates
* Close and Open Information
* more...

Publications and Reports

* Financial Reports
* Legislatively Mandated Reports
* Forms

SEARCH

Office of the Comptroller

Search

Internal Applications Go
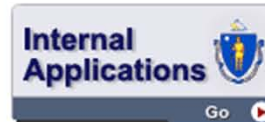
NEWS & UPDATES

Daily MMARS News

eUpdates

More...

Subscribe | Learn more

RELATED LINKS

(A&F) Administration & Finance Bulletins

(AGO) Office of the Attorney General

(HRD) Human Resources Division

(OSD) Comm-PASS

(OSD) Operational Services Division

More...

Whistleblower Protections

Chapter 149, Section 185 of the General Laws protects public employees who wish to make disclosures to expose violations of law or risk to public health, safety or environment in a "whistleblower" mode.

- Who is Protected?
  - Employees of the Commonwealth

- What are whistleblowers protected from?
  - Firing
  - Suspension
  - Demotion
  - Any adverse employment action being taken as a reprisal

- What kinds of disclosures are protected?
  - Disclosure of any activity or practice that is in violation of a law, rule or regulation, or poses a risk to public health, safety or the environment

Deterrence

A fraudster's willingness to commit fraud is inversely proportional to their perceived risk of being discovered.
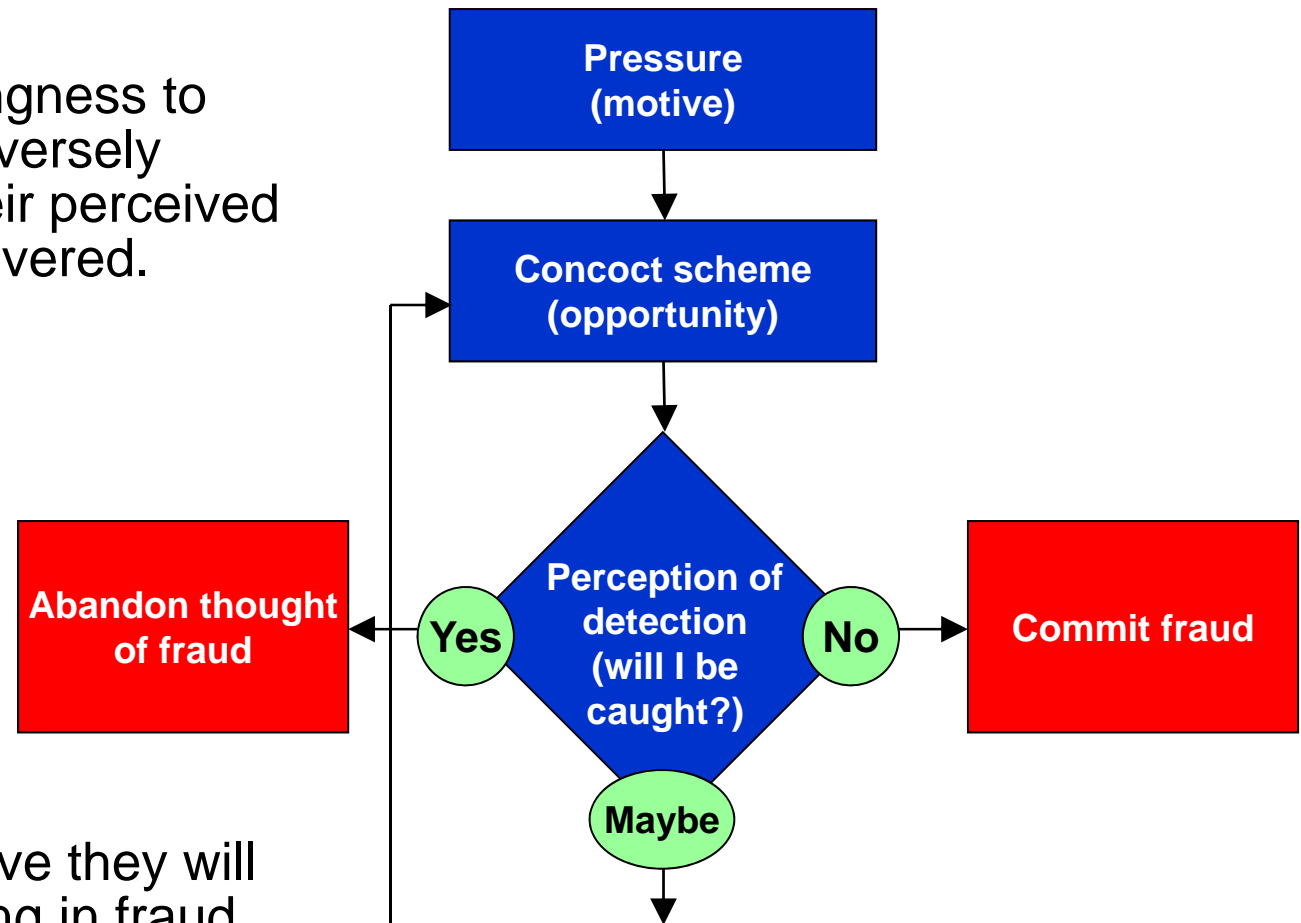
Those who perceive they will be caught engaging in fraud are less likely to commit it.

```
            ┌─────────────────┐
            │  Pressure       │
            │  (motive)       │
            └────────┬────────┘
                     │
                     ▼
            ┌─────────────────┐
            │ Concoct scheme  │◄──────────┐
            │ (opportunity)   │           │
            └────────┬────────┘           │
                     │                    │
                     ▼                    │
   ┌──────────────┐  ◆  Perception of   ┌──────────────┐
   │ Abandon      │◄─Yes  detection    No─►│ Commit fraud │
   │ thought of   │     (will I be         │              │
   │ fraud        │      caught?)          └──────────────┘
   └──────────────┘    Maybe
                         │
                         └──────────────────┘
```

Reconciliation
Let them know someone is watching and checking!

- **Bank statements**
  - Review all documentation and reconciliations for unusual entries or deviations from programmatic purposes
  - Check for corrections and amounts that appear too high or low
  - Flag and review all management overrides
  - Spot check for round numbers or multiple payments in same cycle for same amount/same recipient (absent a lease or recurring payment)

- **DocDirect Reports**
  - Payroll Reports
  - Receivables

- **Monthly Equipment / Supply Inventory**

Data Analysis

- Don't be a "D.R.I.P." = Data Rich, Information Poor

- Detect anomalies, trends, risk indicators
   For example, Multiple payments to the same vendor in a month.

- Continuous auditing (monitoring)

- Exception reports

- User activity reports

  - Look for activity from an unexpected user
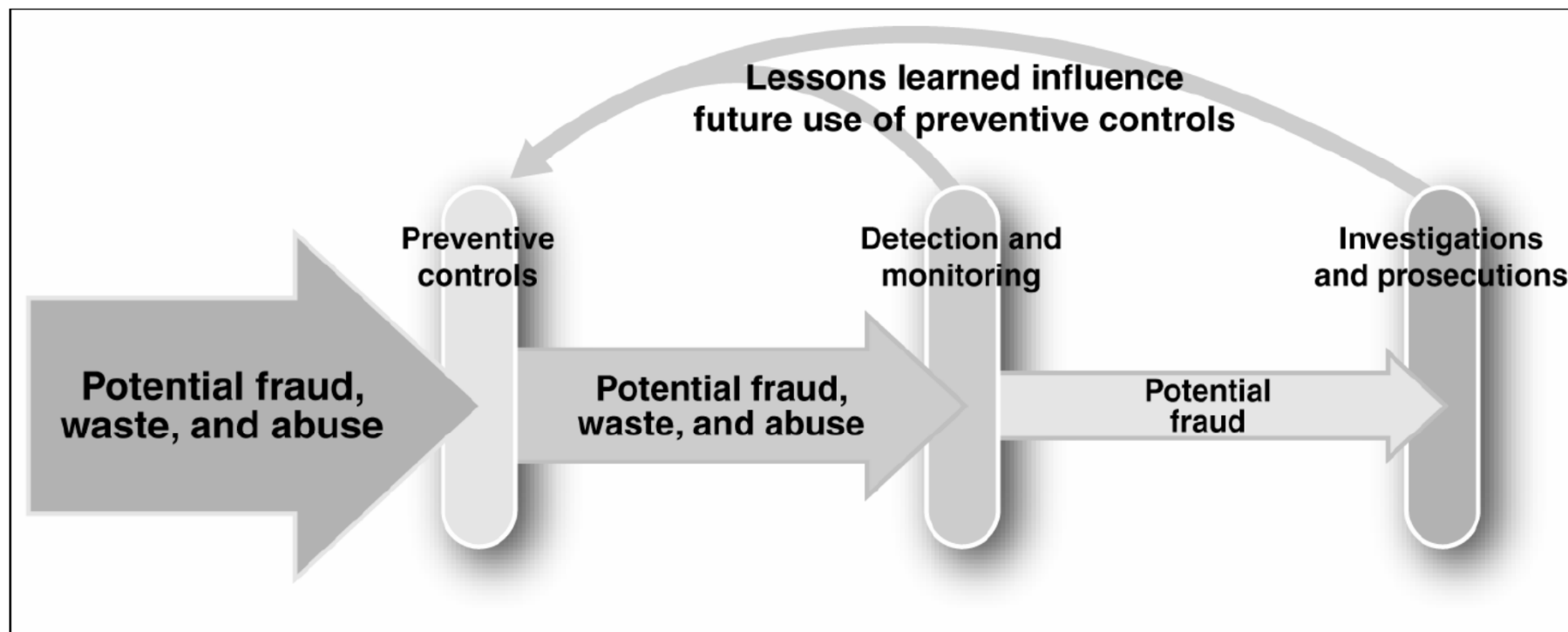
  - Is the same employee creating and submitting:

    The same document?

    Encumbrances and payment documents?

Program Designed to Minimize Fraud, Waste, and Abuse

Figure 1: Program Designed to Minimize Fraud, Waste, and Abuse

Source: GAO.

What's Next?

Provide taxpayers assurance that tax dollars are spent for their intended purposes:

- In times like these we are defending our program missions and budgets

- The public demands greater transparency

- Agencies and their personnel that ignore fraud face negative publicity

Provide taxpayers assurance that tax dollars are spent for their intended purposes:

- Tighten internal controls

- Document all policies and procedures

- Segregate duties

- Implement an anti-fraud strategy

- Set the right tone – your behavior influences others

- Adhere to policies and procedures

- Report violations

Fraud Risk Assessment Template

Chart it out: **Managing the Business Risk of Fraud: A Practical Guide**

- Fraud Risk
- Scheme / Scenario
- Potential People Involved

- Likelihood
- Significance
- Inherent Risk

- Control Activity
- Control Type

Example A:

Identified Fraud Risks and Schemes (1)	Likelihood (2)	Significance (3)	People and/or Department (4)	Existing Anti-fraud Controls (5)	Controls Effectiveness Assessment (6)	Residual Risks (7)	Fraud Risk Response (8)

Example B:

| Owner	Fraud Risks	Controls	Monitoring	Likelihood	Impact
Construction Department	Design & build defects (inferior material used & construction not performed per specifications). • Reputation risk (injury or fatality at site).	• Execute construction contract with detailed scope of work (specifications). • Periodic site visitations by architects, local building inspectors, engineers, commission agents, and owner's construction representatives are made to ensure job is on schedule and built per specifications and code.	• Construction Department • Legal • Internal Auditing	M	H

Available CTR Resources

Please visit the Fraud Prevention section of our Internal Controls Page for:

Tri-fold Brochure available for distribution to staff

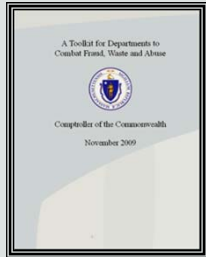Toolkit for Departments
(to Combat Fraud, Waste and Abuse)

- Issued November 2009

- Covers common "Red Flag" or likely Fraud Indicators experienced by government entities

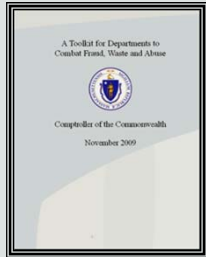- Contains a Checklist for Departments to Combat Fraud, Waste and Abuse
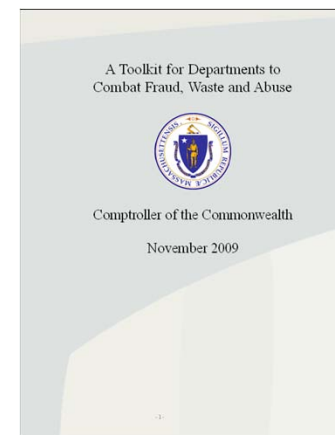
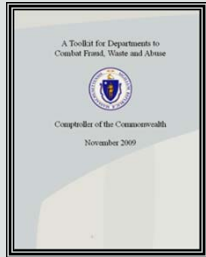Home > Business Functions > Quality Assurance >Internal Controls

Checklist for Departments to Combat Fraud, Waste and Abuse

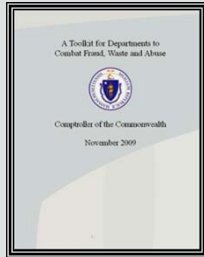| Who Should Perform	Item Checked	Tools/Resources
Management	Each state agency should have a Code of Conduct that meets or exceeds the provisions of MGL Chapter 268A, promotes the highest standards of ethical behavior and is distributed to all employees.	**MGL Chapter 268A** Examples NAGE Code of Conduct: nage.pdf (133 KB) Manager's Code of Conduct link: **Manager's Code of Conduct** Ethics.org's Resource Center: **Ethics Toolkit**

Checklist for Departments to Combat Fraud, Waste and Abuse

Who Should Perform	Item Checked	Tools/Resources
Management	**Conduct a Fraud Risk Assessment** to identify where fraud may occur. A fraud risk assessment should consider relevant fraud schemes and scenarios and map them to mitigating controls. **Fraud risks should be included in the enterprise risk assessment conducted as part of your Internal Control Plan** development. COSO's Enterprise Risk Management–Integrated Framework describes the essential ERM components, principles, and concepts for all organizations, regardless of size. **The Inspector General has issued an updated guide on developing fraud prevention policies and programs**	Appendix D - Institute of Internal Auditor's **Managing the Business Risk of Fraud** has a risk assessment framework. **COSO's Enterprise Risk Management Framework** is used in the Comptroller's Risk Management training offering. Sign up for this training at the Comptroller's web site: **Training and Meeting Schedule.** **IGO Guide on Fraud Prevention**

Checklist for Departments to Combat Fraud, Waste and Abuse

Who Should Perform	Item Checked	Tools/Resources
Financial	Establish process to verify that all changes to vendor records (name, address change, bank account) are submitted by an authorized vendor signatory, and approved by an agency signatory. This is to prevent theft or misappropriation of funds.	See Comptroller policy: **Vendor/Customer File and W-9s.**
Procurement	Ensure goods and services are bought only when needed. This should be reviewed by someone who does not perform the inventory or purchase the goods.	Take regular inventories of goods. An example of an **asset inventory spreadsheet for information technology** is published by the University of Colorado for its departments. This can be customized for any good or commodity.
Procurement	Ensure goods purchased are received by someone who does not order them.	**The Federal Aviation Administration (US DOT) has a good example of receiving reports with signoffs** that can easily be replicated.

Checklist for Departments to Combat Fraud, Waste and Abuse

Who Should Perform	Item Checked	Tools/Resources
Procurement	Establish process to check all bidders/vendors/contractors for debarment or exclusion from federal awards, suspended licenses, etc., as directed by the Operational Services Division's Procurement Information Center. Also require vendors/contractors to submit copy of valid license with bids	OSD's **Procurement Information Center** Federal Sites: **Excluded Parties List System** – Contains parties that are excluded from receiving Federal contracts, **List of Excluded Individuals/Entities** - Listed parties are excluded from participation in the Medicare, Medicaid and all Federal health care programs. State Sites: **DCAM Debarred Contractor's List** - This list consists only of individuals and firms debarred by the Division of Capital Asset Management. The Office of the Attorney General maintains a separate list of additional individuals and firms debarred by that office that is available in the Central Register or by contacting the AGO directly at (617) 727-2200 x. 3277. **DIA Stop Work Orders** – Listed businesses are prevented from bidding or participating in any state or municipal funded contracts for a period of three (3) years. **DPL License Check** - Check contractors here for valid professional licenses and/or disciplinary actions. **DCAM Certified Prime Contractors/Sub-bidders** This lists firms that are allowed to bid on state construction projects. **Mass Med Board** - Check the Massachusetts Board of Registration in Medicine site for **Online Physician Verifications**.

Questions?

Comptroller Help Desk

617-973-2468

Comptroller.info@state.ma.us