Fraud Awareness Introduction

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Any intentional illegal act performed for gain and characterized by deceit, concealment, or a violation of trust.

Fraud is committed by individuals and organizations.

FRAUD is a crime! Like most crimes, fraud occurs with regularity, does not discriminate, can be of any size, complexity, or duration, and can be discouraged by adequate security, internal controls, oversight, and vigilance.

The Fraud Triangle

Fraud Facts

91% involve multiple transactions

Average fraud lasts two years

68% of perpetrators act alone

Median loss per fraud is $175,000

At least 1/3 of frauds against government programs!

People in a position of trust & responsibility often with the ability to override controls. Have knowledge of systems and processes.

65% are men [down from over 90%]

Often well-liked, trusted & respected people

The more authority you have the more likely you are to commit fraud

10-80-10 Rule

Refers to an assumption about the population and the likelihood of people committing fraud

10%

10% of the population will NEVER commit fraud. Too many psycho-social restraints.

10%

10% of the population are evaluating systems and situations to find an opportunity.

Sociopathic tendencies

Predatory.

Affinity Fraud

Fraudsters use any “hook” to gain trust — ultimately exploiting that trust for their own benefit or financial gain. Con artists.

“Where there are people there is risk.”  
 80%

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

MOST OF US!!!

Addictive

Stimulates pleasure center of brain

Why?

The willingness to commit fraud is inversely proportional to a perceived risk of discovery.

Like speeding.

Consequences of Fraud

Dollar or asset losses

Potential loss of future funding

Bad press, impact on reputation (of Self-Determination Model) and credibility – “under a cloud of suspicion”

Undermines mission

Creates unmet client needs

Lowers employee morale

Strain on resources

Relevant Examples

PA: $80K stolen from investment accounts

MN: parents took $22K to buy truck

MN: wife withdrew $35K from ATM to gamble

AZ: DES caseworker colluded w/provider

FL: Palm Beach Cty has found $3M in financial fraud since 2011

KS: woman w/schizophrenia hired “con artist” provider

MN: provider hired attorney for $120/hour

OH: daughter used funds for her “lifestyle”

FL: daughter transferred property to herself

Pinellas Cty, FL: 63 guardian audits = $2.2M ($35K avg.)

Abusive Relationships

Rape and sexual abuse by family and friends

Physical abuse by family and friends

Neglect by family and friends

Is it hard to believe that vulnerable populations are at risk for financial crimes by friends and family given these types of crimes???

Contributing Factors

#1: Lack of adequate controls

#2: Lack of oversight

#3: Override of controls

#4: Poor “tone at the top”

Your Red Flags

Client overdependence

Unexplained or undocumented transactions

Extra payments to third party

Unpaid bills/late payments

Change in financial situation

Change in finances (new bank, investments, signatory authority, etc.)

Power of attorney

Cash withdrawals

Checks to CASH

Breach of rules

Client needs unmet

Spending priorities

Related parties providing services

Reasonable, practical, but effective

Audits [<10%]

Prevention

All anti-fraud measures are intended to reduce “opportunity.”

We need to make it tough for perpetrators.

Defenses are not a cure but, having no defense is almost an invitation to fraud.

Bottom Line

Fraud happens!

You are the best defense.

Be vigilant and address fraud as you would any other crime or potential threat.

We should not be too confident in our defenses or with our PERCEIVED personal ability to detect fraud. This simply compounds the risk.