Fraud Awareness Introduction

Julie Flaherty, Esq. - Assistant Inspector General & Director of the Bureau of Program Integrity

Why is this training important now?

- This training reflects the role of the Self-Determination Advisory Board to help “implement, publicize, evaluate, improve and develop information regarding self-determination”

- The Real Lives Law mandates reporting financial abuse to DPPC

- The definition of financial abuse in the Real Lives Law is very broad

Definition of Financial Abuse

“when suspicion of financial abuse arises including, but not limited to:

mismanagement,
misappropriation or
waste

of a participant’s self-determination funds or individual budget”

Financial Abuse and Fraud

- Financial abuse of adults with disabilities often involves state or federal public funds
- **Financial abuse and exploitation may involve criminal charges related to the fraudulent use of public funds**

Fraud Awareness and Prevention

Presenter:

Neil Cohen, Deputy Director, Investigations, OIG

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GOALS

- Raise your fraud awareness to prevent victimization

What Is Fraud?

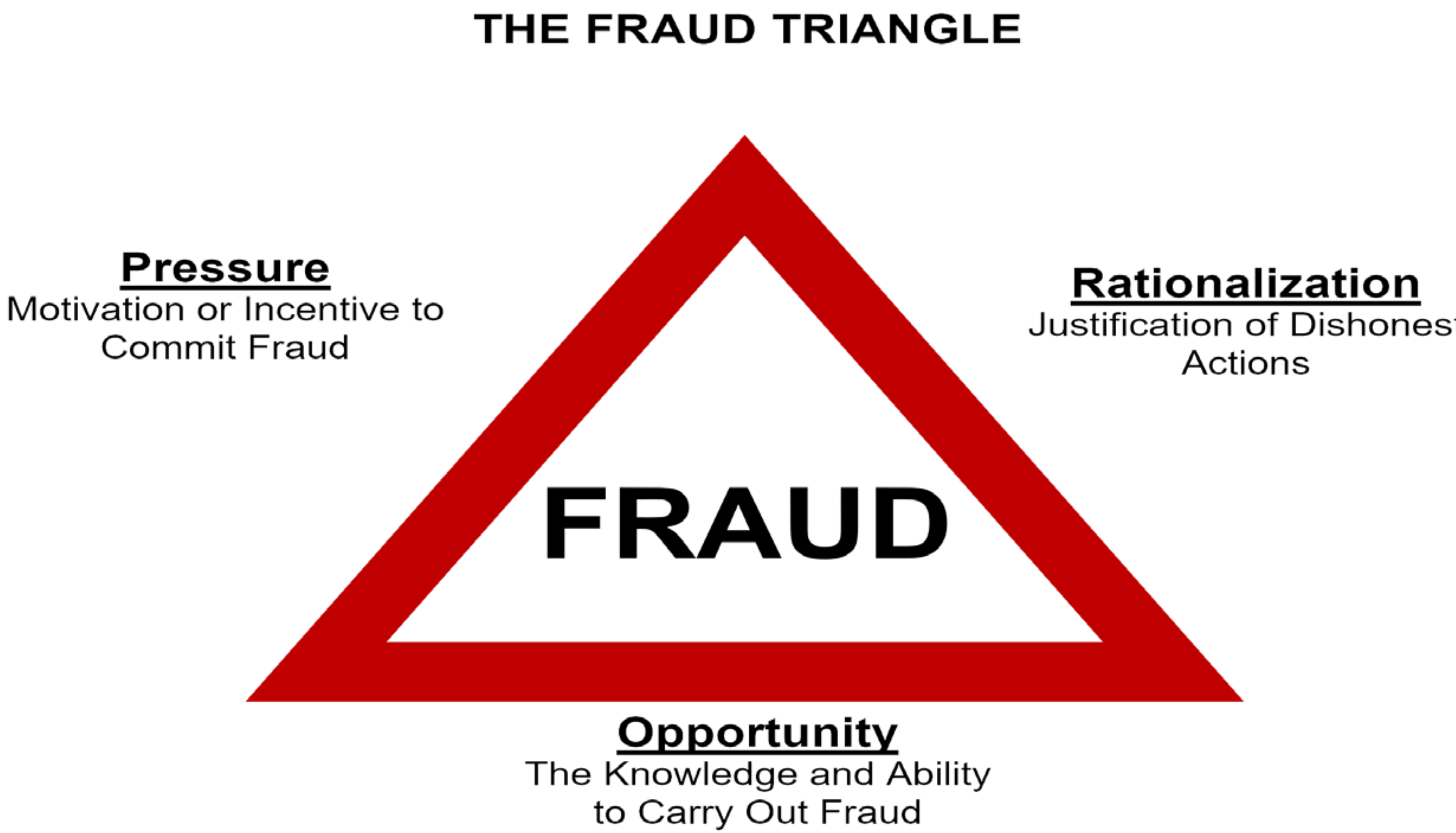
- Any intentional illegal act performed for *gain* and characterized by deceit, concealment, or a violation of trust.

- Fraud is committed by individuals *and* organizations.

Fraud Is Common

- **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



The Fraud Triangle by Donald R. Cressey

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!

The Usual Suspects

- People in a position of <u>trust</u> & <u>responsibility</u> often with the ability to override controls. Have knowledge of systems and processes.
- 65% are men [down from over 90%]
- Often <u>well-liked</u>, <u>trusted</u> & <u>respected</u> 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

PREVENTION

Reasonable, practical, but effective

Audits [<10%]

Not intended to identify fraud.

Prevention

- All anti-fraud measures are intended to <u>reduce</u> "opportunity."

- We need to make it tough for perpetrators.

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

Best Measures

- Zero Tolerance
- Strong Tone at the Top—lead by example
- Ask questions
- Enforcement of controls – limit exceptions
- Training & Communication
- Follow-up on complaints, audits, etc.
- Trust, but verify
- Be skeptical

Bottom Line

- <u>Fraud happens</u>!
- 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 <u>personal ability</u> to detect fraud. This simply compounds the risk.