



First Friday Fraud Facts+

January 4, 2019

The Office of Idaho State Controller Brandon Woolf distributes this newsletter as a public service and as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.

Collusion

The Importance of Preventing and Detecting Collusion

Collusion is defined as an often secret action taken by two or more parties to achieve an illegal or improper purpose.¹ Fraud caused by collusion is extremely difficult to uncover; additionally, the dollar amount of loss tends to be higher in collusion cases. According to the Report to the Nations on Occupational Fraud and Abuse: 2018 Global Fraud Study published by the Association of Certified Fraud Examiners (ACFE), "Fraud losses rose significantly when more than one fraudster was involved in a scheme. One likely explanation for this finding is that many anti-fraud controls work on the principles of separation of duties and independent checks."² Based on the study, "When multiple perpetrators conspire in a fraud scheme, they can circumvent the system of independent verification that might otherwise detect fraud."² Because there is a direct correlation between the number of perpetrators committing fraud to the dollar amount of fraud loss, organizations should focus more on finding ways of preventing and detecting collusion.

"Collusion schemes tend to be more costly than single-perpetrator frauds."

- ACFE 2018 Report to the Nations

How It Affects You

According to the Report to the Nations on Occupational Fraud and Abuse: 2016 Global Fraud Study published by the ACFE, the government and public administration industry had a greater frequency of fraud from billing, corruption, and non-cash schemes.³ These three types of schemes were also the top three schemes performed by more than one perpetrator (i.e., collusion).³ Governmental employees should focus on preventing and detecting fraud caused by collusion since the results of the study indicate that fraud schemes most common in government are also most likely to be performed by collusion.



How to Prevent and Detect Collusion^{4,5}

The following are a few ways to prevent and detect collusion:

- Provide a policy on fraud to all employees upon hiring and reiterate the policy annually.
- Require disclosure of relationships that might cause a conflict of interest - both inside and outside the organization.
- Provide a tool for reporting suspicious or fraudulent behavior (e.g., a fraud hotline) to deter/prevent people both inside and outside the or-

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ganization from colluding.

- Inform suppliers and vendors that gifts to employees are prohibited, and to disclose any inappropriate behavior by its employees.
- Establish budgets and perform analytical reviews to help deter fraud and collusion.
- Require frequent job rotation and mandatory holidays with revolving role replacement.
- Perform surprise audits.
- Perform fraud/forensic audits that specifically investigate the social infrastructure of the organization.

Case Study⁶

In May 2017, Bumble Bee Foods LLC agreed to plead guilty for its role in a conspiracy to fix the prices of shelf-stable tuna fish, such as canned and pouch tuna, sold in the United States. In addition to pleading guilty, Bumble Bee has agreed to pay a \$25 million criminal fine, which will increase to a maximum criminal fine of \$81.5 million in the event of a sale of Bumble Bee subject to certain terms and conditions.

According to a one-count felony charge, Bumble Bee and its co-conspirators agreed to fix the prices of shelf-stable tuna fish from as early as the first quarter of 2011 through at least as late as the fourth quarter of 2013. The felony charge is the third to be filed in the Antitrust Division's ongoing investigation into price fixing among some of the largest suppliers of packaged seafood. Bumble Bee has also agreed to cooperate with the Antitrust Division's ongoing investigation.

Citations

¹American Heritage Dictionary of the English Language, 5th Edition, Houghton Mifflin Harcourt Publishing Company. <https://www.thefreedictionary.com/collusion>. Accessed 17 December 2018.

²Report to the Nations on Occupational Fraud and Abuse. <https://www.acfe.com/report-to-the-nations/2018/>. Accessed 17 December 2018.

³Report to the Nations on Occupational Fraud and Abuse. <https://www.acfe.com/rtn2016/docs/2016-report-to-the-nations.pdf>. Accessed 17 December 2018.

⁴James Leisner, "When There's a Team Effort to Defraud." <https://stonebridgebp.com/library/uncategorized/when-theres-a-team-effort-to-defraud/>. Accessed 17 December 2018.

⁵Pamela Murphy and Clinton Free, "The Social Side of Fraud: Collusion and Culture" *Fraud Magazine*, January/February 2015 Vol.30, pp. 64-66.

⁶Department of Justice, Office of Public Affairs. "Bumble Bee Agrees to Plead Guilty to Price Fixing." <https://www.justice.gov/opa/pr/bumble-bee-agrees-plead-guilty-price-fixing>. Accessed 17 December 2018.

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