

First Friday Fraud Facts

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Welcome to First Friday Fraud Facts (F⁴). This edition will discuss statistics regarding fraud in the public sector. In addition, we will address Human Resources (HR) and the role it can play in the prevention and detection of fraud, waste, and abuse.

Many theories suggest a link between times of economic recession and instances of fraud, waste, and abuse. A poll was recently conducted in which approximately two-thirds of executives thought instances of fraud were likely to increase over the next two years as a result of the economic slow down. However, others suggest the increased focus on fraud drives such statistics. Regardless of the drivers it is more important than ever to be cognizant of the possibilities of fraud in the workplace in an effort to conserve resources and apply them to the programs that meet the needs of the organizational goals and objectives.

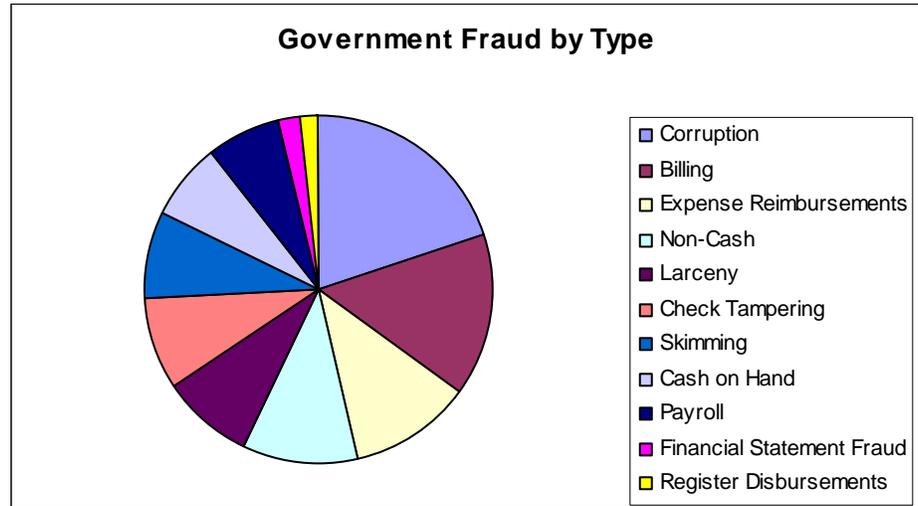


FRAUD IN THE PUBLIC SECTOR

According to the recent *2010 Report to the Nation on Occupational Fraud and Abuse* published by the Association of Certified Fraud Examiners (ACFE), if organizations are lumped into one of four general categories, (Private, Public, Government, and Non-Profit), government ranks third with 16.3% of the fraud cases. However, when further broken down into 22 industries that were rated in the ACFE study, "government and public administration" ranked third in frequency for occupational fraud, behind the banking/financial services and manufacturing sectors.



The majority of occupational fraud schemes in the public sector are the result of corruption (20.0%) or billing schemes (15.1%). Fraud is further broken down by scheme type in the report as follows:



THE ROLE OF HUMAN RESOURCES IN THE FRAUD WATCH

With an unemployment rate of 9.1% in Idaho and signs that economic growth will be slow, it is important to realize the role HR can play in helping your agency recruit and retain the best employees. This may help reduce the occurrence of fraud, waste, and abuse. HR staff have the opportunity to work with managers to ensure a balanced approach is taken to address fraud issues.

HR can be important in several aspects of fraud detection, prevention, and overall awareness. One key aspect is the front-end role HR staff play in assisting hiring managers by providing quality reference checks and background checks during the recruitment process. A thorough pre-employment check can include: credit checks, criminal and civil history checks, education verification, driver's license check, and employment verification. HR staff can also alert managers to the importance of warning signs and red flags such as changes in attendance, temperament, office behavior, financial distress, office romances, and other lifestyle changes that may affect workplace behavior.

HR FRAUD UNCOVERED

Although HR can be a great resource in the fight against fraud, just like any department within an organization it can also be a source of potential fraud. As part of the ACFE's 2010 report on occupational fraud, they analyzed information about the perpetrators. Out of the 1,659 cases of fraud in which the perpetrator was identified, only 22 involved perpetrators from the HR department. This correlates to less than 1.3% of the cases. However, the median loss in these 22 cases was \$200,000.

FRAUD CASE OVERVIEW

This case involves an alleged kickback scheme involving an HR executive at a major corporation. The perpetrator was the Vice President of HR, who was authorized to hire outside recruiting companies to fill certain vacant positions. He was further authorized to approve payments for these services; and so long as the payment was less than \$50,000, no additional approval was needed. The HR executive allegedly had pre-existing relationships with the "recruiters" prior to any business relationship between them and the victim company.

In addition, the HR executive arranged to receive false copies of invoices from three recruiters for services that were never rendered. The HR executive would then receive kickbacks from the payments made to the recruiters. In total the allegations show the company was defrauded of over \$1.1 million through the scheme, and the HR executive received over \$450,000 in kickbacks. The allegations further state the kickbacks were made to a sole proprietorship established by the HR executive as a shell company to receive the funds.

The scheme allegedly took place over a two-year period before the HR executive's employment with the victim company was terminated. The former HR executive and two of the three recruiters were arrested and arraigned in federal courts in December 2008.



ANNOUNCEMENTS:

1) Mark your calendars to attend one of the following Idaho SCO's Annual Internal Control Training sessions:

a) Wednesday, May 4, 2011, from 8:15 a.m. – 10:15 a.m.

OR

b) Thursday, May 12, 2011, from 1:15 p.m. – 3:15 p.m.

* Please note that the second training session above has changed from May 11th to May 12th. More details and registration information to come...

2) The 2010 Comprehensive Annual Financial Report (CAFR), Citizen-Centric Report, and the Legal Basis Financial Report are now available on the SCO's website at www.sco.idaho.gov. Under "What's New" click on "Now Available – 2010 Comprehensive Annual Financial Report" to access all three reports online.
