

First Friday Fraud Facts

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The Oregon State Controller's Office created this newsletter. With their permission, the Idaho State Controller's Office edits and distributes this newsletter as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.



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Welcome to First Friday Fraud Facts (F⁴). This edition will cover conflict of interest and its role in fraud, waste, and abuse. In addition, this issue will discuss some of the “red flags” that could be present in situations involving conflict of interest.

WHAT IS CONFLICT OF INTEREST?

A conflict of interest can be defined as an opposition between one’s obligation to the public good and one’s self interest. It can also be described as a conflict of roles that would interfere with one’s fair and impartial service. One example would be a public official’s participation in an official action awarding a contract to a company in which a relative owns stock. A conflict of interest could act as an incentive for improper acts under certain circumstances. A conflict of interest can exist even if no unethical or improper act occurs. An undisclosed conflict of interest could give the appearance of impropriety and cast suspicion over the transaction and the public servant. An actual conflict of interest occurs when the action taken by a public official *would* affect the financial interest of the official, a relative of the official, or a business associated with the official or a relative of the official. A potential conflict of interest exists when the action taken by the public official *could* have a financial impact on the official, a relative of the official, or a business associated with the official or a relative of the official.

RED FLAGS

In fraud involving a conflict of interest, a public official misrepresents their impartiality in business decisions when they have an undisclosed financial or personal interest. Several indicators can be



present in these types of situations. One type of fraud that is particularly rampant with a conflict of interest are the contract, bidding, and procurement processes. Possible indicators may include:

- Unexplained or unusual favoritism shown to a particular contractor or consultant
- Disclosing confidential bid information to a contractor or prospective contractor in preparing the bid
- A public official having discussions about employment with a current or prospective contractor or consultant
- A close socialization with and acceptance of inappropriate gifts, travel, or entertainment from a contractor or the ability to purchase such items at below fair market value
- A vendor or consultant address being incomplete or matching an employee's address
- A public official leasing or renting equipment to a contractor for performing contract work

ETHICS VIOLATIONS

Many indicators of ethics violations exist. The examples outlined below are not specific to a conflict of interest, nor are they intended to be an all-inclusive list; but rather, the examples below are potential indicators of general ethics and conduct violations:

- Violations of agency policies and procedures
- Social relationships between employees and contractors
- Failure to protect personally identifiable information
- An employee who is overly protective of information or is reluctant to train others
- An employee discussing prospective employment with a vendor during a business period

FRAUD CASE OVERVIEW

This case involves a state agency director who allegedly provided favors for friends and family at the expense of taxpayers and in the process also reduced benefits to citizens. This occurred over a five-year period and resulted in the expenditure of over \$1 million in public funds.

Officials involved in the investigation have indicated the agency director violated conflict of interest laws by ordering employees of his department to hire his wife and son and then attempting to cover it up. Officials also alleged the director later authorized a 35-percent increase in the salary of his wife. The payments to his son and wife totaled over \$330,000.

Further allegations indicate the director misused public money by gifting money to individuals and private corporations. This includes payments over a two-year period to help establish and maintain his own private corporation, which purchased over 1,200 gift cards for employees over a four-year period. Accusations also include procurement fraud perpetrated by circumventing procurement rules over a three-year period, including several payments for services never received.

The agency director ordered one of the programs under his authority to decrease spending in order to pay for many of the expenses. This meant elimination of services to direct recipients of public assistance programs.

The state agency director has since resigned from his position amid these allegations and additional issues resulting in a \$10,000 civil penalty issued to the department by the federal government. The alleged perpetrator is charged with eight felony charges related to conflict of interest, fraudulent schemes and practices, misuse of public money, and procurement fraud. The former agency director has pleaded not guilty to the charges. If convicted on all eight counts the individual could be sentenced to more than 15 years in prison.

