First Friday Fraud Facts+

July 3, 2015

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

Welcome to First Friday Fraud Facts+ (F4+). This edition will discuss preventing and detecting collusion.

The Importance of Preventing and Detecting Collusion

Collusion is defined as an illegal or improper action taken by two or more parties in secret.[5] 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: 2014 Global Fraud Study* published by the Association of Certified Fraud Examiners (ACFE), "collusion helps employees evade independent checks and other anti-fraud controls, enabling them to steal larger amounts." Based on the study, "as the number of perpetrators increased, losses rose dramatically."[1] 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.

How It Affects You

Why is it important for governmental employees to prevent and detect fraud caused by collusion? Disclosed in the ACFE study, the government and public administration industry had a greater frequency of fraud from billing, corruption, and non-cash schemes. These three types of schemes were also the top three schemes performed by more than one perpetrator (i.e., collusion). 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

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.[2]
- Require disclosure of relationships that might cause a conflict of interest – both inside and outside the organization.[2]
- Provide a tool for reporting suspicious or fraudulent behavior (e.g., a Fraud Hotline) to people both inside and outside the organization.[2]
- Inform suppliers and vendors that gifts to employees are prohibited, and to disclose any inappropriate behavior by its employees.[2]
- Establish budgets and perform analytical reviews to help detect fraud and collusion.[2]

Questions or Comments:

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- Require frequent job rotation and mandatory holidays with revolving role replacement.[3]
- Have surprise audits performed.[3]
- Have fraud/forensic audits performed that specifically investigate the social infrastructure of the organization.[3]

Fraud Case

A clerk at a Home Depot in Long Island was the first to set in motion the uncovering of a large collusion scheme being run by the top administrators in the Roslyn School District. The clerk called in a suspicious credit card transaction in October 2002 to the authorities after a man came in to Home Depot using a Roslyn School District credit card to purchase construction materials. The clerk became suspicious because the credit card was being used 35 miles east of the Roslyn School District and the materials were being delivered 50 miles east of Roslyn.

The credit card was given to the man by his mother, Pamela Gluckin, who was the schools assistant superintendent. Mrs. Gluckin's employment was terminated as a direct result. The superintendent Dr. Frank A. Tassone told the board that the school would suffer if the matter became public which resulted in no further investigation into the matter. In February 2004 an anonymous letter was received by the members of the school board, the district attorney, and several local newspapers which stated that the former assistant superintendent and the superintendent were both involved in stealing millions of dollars in school funds. After the letter was received, the State Comptroller was tasked with performing an audit on the school district and then the full extent of the fraud was revealed.

The State Comptroller's audit revealed that "74 school credit cards were in unauthorized circulation among family and friends of Mrs. Gluckin and other school employees charged in the fraud." Mrs. Gluckin was found to have stolen over $4 million from the school district and will have to pay back what was stolen. The superintendent, Dr. Frank A. Tassone, was found to have stolen about $2 million in school funds and will serve a 4 to 12 year sentence in prison and have to pay back what was stolen.[4]

[1] "Report to the Nations on Occupational Fraud and Abuse," <http://www.acfe.com/rttn/docs/2014-report-to-nations.pdf> accessed on April 24, 2015.

[2] James Leisner, "When There's a Team Effort to Defraud" <http://www.stonebridgebp.com/library/fraud-forensics/when-theres-a-team-effort-to-defraud> accessed on April 24, 2015.

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

[4] Paul Vitello, "A Suspicious Clerk and a School Scandal" *The New York Times*, October 6, 2005, <http://www.nytimes.com/2005/10/06/nyregion/06roslyn.html?_r=1&> accessed on April 24, 2015.

[5] *American Heritage Dictionary of the English Language, 5th Edition*, Houghton Mifflin Harcourt Publishing Company, 2011, cited by <http://www.thefreedictionary.com/collusion> accessed on May 20, 2015.