

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 some basics by discussing the definitions of fraud, waste, and abuse, and will outline some of the resources and tools available for state agencies to prevent, detect, and deter instances of fraud, waste, and abuse.

WHAT IS FRAUD, WASTE, AND ABUSE?

Determining one definition of fraud, waste, or abuse can be difficult; hence, many definitions exist. The Oregon Secretary of State Audits Division has defined fraud, waste, and abuse as follows:

- Fraud – a dishonest and deliberate course of action that results in the obtaining of money, property, or advantages to which state employees or an official committing the action would not normally be entitled; intentional misleading or deceitful conduct that deprives the State of its resources or rights. Fraud is most often classified as one of three categories: asset misappropriation, corruption, or fraudulent financial statements.
- Waste – the needless, careless, or extravagant expenditure of state funds, incurring of unnecessary expenses, or mismanagement of state resources or property. Waste does not necessarily involve private use or personal gain, but almost always signifies poor management decisions, practices, or controls. Waste typically takes the form of purchasing unneeded supplies or equipment, purchasing goods at inflated prices, or failure to reuse or recycle resources.
- Abuse – the intentional, wrongful, or improper use of or destruction of state resources, or a seriously improper practice that does not involve prosecutable fraud. Abuse can include the excessive or improper use of an employee's or official's position in



a manner other than its rightful or legal use. Abuse is often seen when damage to state equipment or property is not reported, a public official uses their position for personal gain for themselves or a family member, significant time away from work or state time used for personal business, receiving favors for awarding contracts to certain vendors, conflict of interest, and other ethical violations.

BLOWING THE WHISTLE

Most schemes start off small; however, as perpetrators see more opportunities to continue their schemes, they justify and rationalize their own behavior as they move towards larger fraud schemes. In most cases, the fraud goes undetected until the perpetrator can no longer cover their scheme and eventually gets caught.

Paying attention to potential fraud indicators and reacting swiftly can help prevent, detect, and deter instances of fraud, waste, and abuse. Some indicators or “red flags” to look for may include:

- Alterations to financial or payroll records, such as curious deletions or changes to documents
- Disappearance or misuse of state money, equipment, supplies, etc.
- Questionable reimbursement claims, such as inconsistent amounts or items, unusual activities, or requests
- Inappropriate use of state credit cards
- Mishandling of confidential information

FRAUD CASE OVERVIEW

This case involves a local government elected official who provided favors for friends, family, and campaign contributors at the expense of taxpayers in exchange for large kickbacks over the course of a year in office.

In the same month the public official took office, the individual moved to eliminate the Department of Public Works. This resulted in the lay off of 60 public employees. In lieu of a Department of Public Works, services were contracted with a public company where the public official’s son and grandson both worked.

The company selected for the contract was incorporated just days before receiving the contract. In addition, the two owners of the corporation were the two largest contributors to the public official's campaign for office.

The contract was in effect for approximately one year. During this time the local government paid the corporation over \$3.1 million dollars, including hundreds of thousands of dollars in inflated and false charges.

In exchange for providing the favorable contract, not only did the work go to a company for which the public official's family worked, but the official received more than \$65,000 in kickbacks from the company.

Kickbacks were also allegedly paid to another official to ensure the invoices submitted by the company were not challenged. These kickbacks came in the form of both cash and a new car.

The scheme was revealed when an undercover informant began cooperating with investigators. When one of the two owners of the company realized they were the target of an investigation they began cooperating with investigators.

As a result of a long investigation, the public official was eventually arrested and indicted on charges of conspiracy, bribery, and fraud. The public official pleaded guilty to conspiracy and admitted receiving the bribes, and faces a sentence ranging from 46–57 months in prison and up to \$100,000 in restitution.

