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# Fraud Awareness and Cautionary Tales



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# What is Fraud?

- Intentional misrepresentation that causes harm
- Cheating for profit or gain
- Acts of guile, trickery, and concealment



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# Major Types of Occupational Fraud

Financial Statement

Corruption

Asset Misappropriation



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# Major Types of Occupational Fraud

Lying

Cheating

Stealing



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## Common Fraud Schemes

- Bribery
- Kickbacks
- Bid Rigging and Collusion
- Conflict of Interest
- Contract/Grant Fraud



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## Bribery

Offering, giving, receiving, or soliciting anything of value to influence an official act or business decision

## Kickback

Improper, undisclosed payments made to obtain favorable treatment



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## Bid Rigging

Fraudulently assists a vendor in winning a contract through the competitive bidding process

## Collusion

Two or more individuals committing an act designed to deceive or gain an unfair advantage



# Conflict of Interest

- An individual or organization is involved in multiple interests
- Personal/organizational interest overwhelms professional responsibilities



## Indicators of Bribery and Corruption

### Corrupt Employees:

- High success rate in markets where competitors are known to bribe
- Insisting on using specific third parties
- Making excuses for deficiencies
- Responsible for approving an unusually high volume of purchases



# Indicators of Bribery and Corruption

## Corrupt Third Parties:

- Routinely offer inappropriate gifts
- Consistently awarded work without apparent competitive advantage
- Fees paid in cash
- Address/phone number irregularities
- History of fraudulent conduct
- Claims of special influence



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## Contract Fraud

Intentional  
misrepresentation of a  
material fact in a contract

## Grant Fraud

An award recipients  
attempt to deceive the  
government about their  
spending of award funds



## Indicators of Contract Fraud

### Development of SOWs and Specifications:

- Defining specifications to fit products/capabilities of a single contractor
- Using SOWs or specifications developed by a contractor
- Splitting up requirements
- Vague specifications



## Indicators of Contract Fraud

### Evaluation of Bids and Proposals:

- Improperly disqualifying bids/proposals
- Accepting non-responsive bids from a preferred contractor
- Unauthorized release of information
- Documents from competing firms containing similar or identical information



## Indicators of Contract Fraud

### Post-Award Phase:

- Contractors fail to meet the contract terms, but there are no consequences
- Contractors are not required to return excess materials
- Unsuccessful bidders usually become subcontractors
- Issues with overpayments and no attempts to recoup such funds



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# Disaster Fraud

- Speed
- Influx of money
- Unequipped systems
- Need
- Fear



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## 5 primary categories of Disaster Fraud

- Charitable solicitations
- Contractor and vendor fraud
- Price gouging
- Insurance fraud
- Forgery



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Prevention costs are much lower than detection costs in:

- Dollars
- Resources
- Employee morale
- Reputation





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# Why do people commit fraud?



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## The “Fraud Triangle”

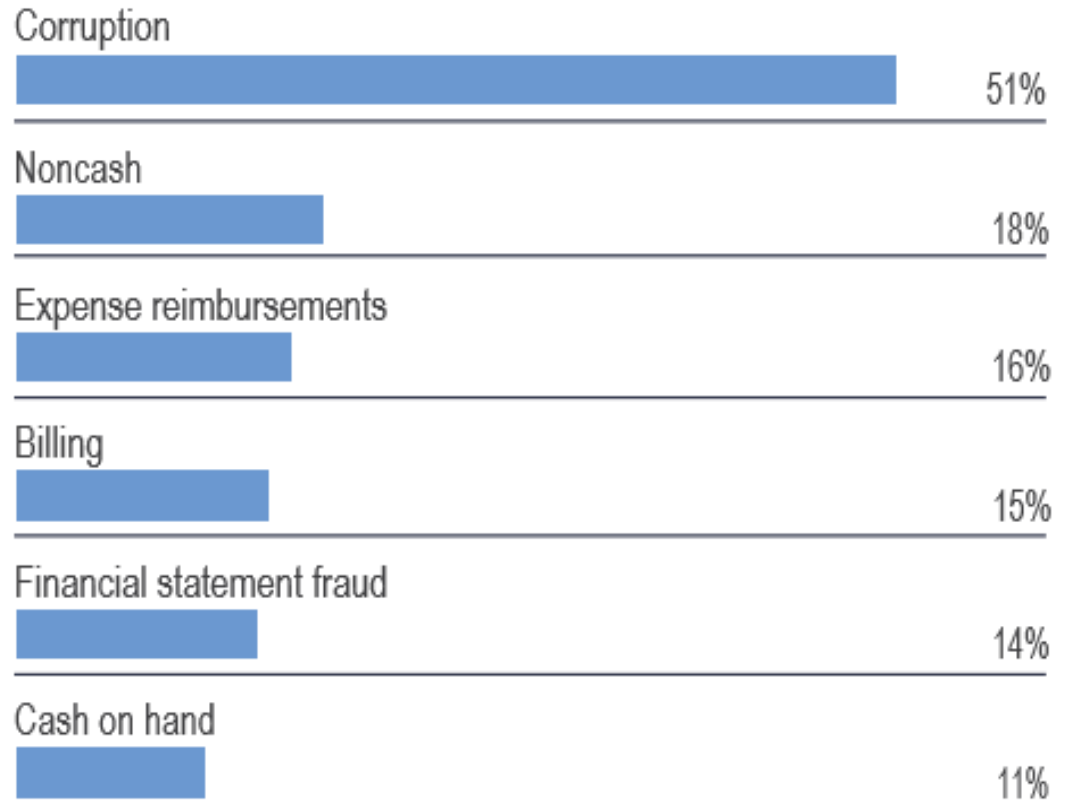


Donald Cressey, “Why Do Trusted Persons Commit Fraud?  
A Social-Psychological Study of Defalcators,” *Journal of Accountancy*, 1951



# Asia-Pacific Region

## Top 6 Common Fraud Schemes



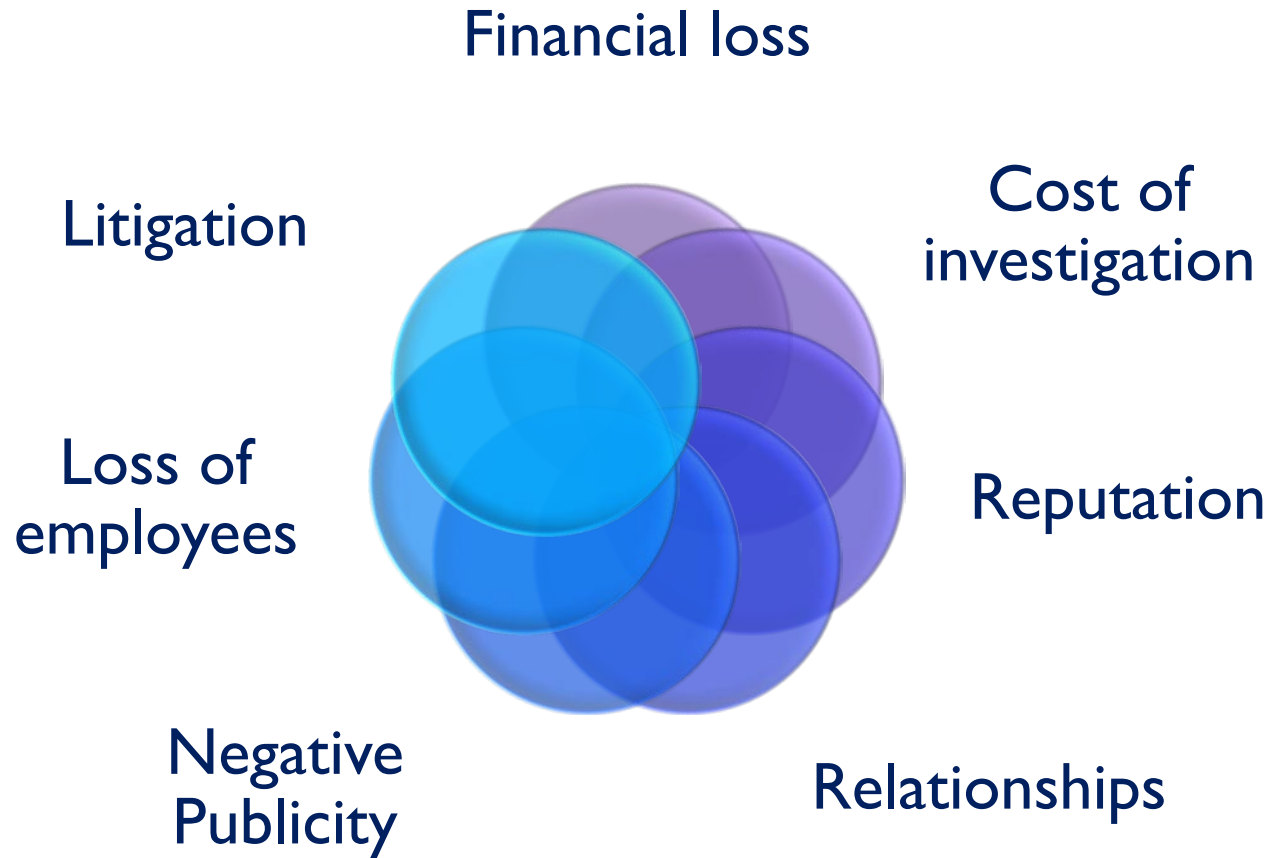


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# What is at stake?



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# Fraud can be contagious!

Senior FWS Employee Failed to Disclose Outside Work and a Conflict of Interest



Potential Mismanagement by FWS Assistant Director



All 3 of the Assistant Directors employees violated travel regulations



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*“While we are free to choose our actions,  
we are **not free**  
to choose the consequences  
of our actions.”*

*– Stephen R. Covey,  
The Seven Habits of Highly Effective people*



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# What can you do?



# DETER

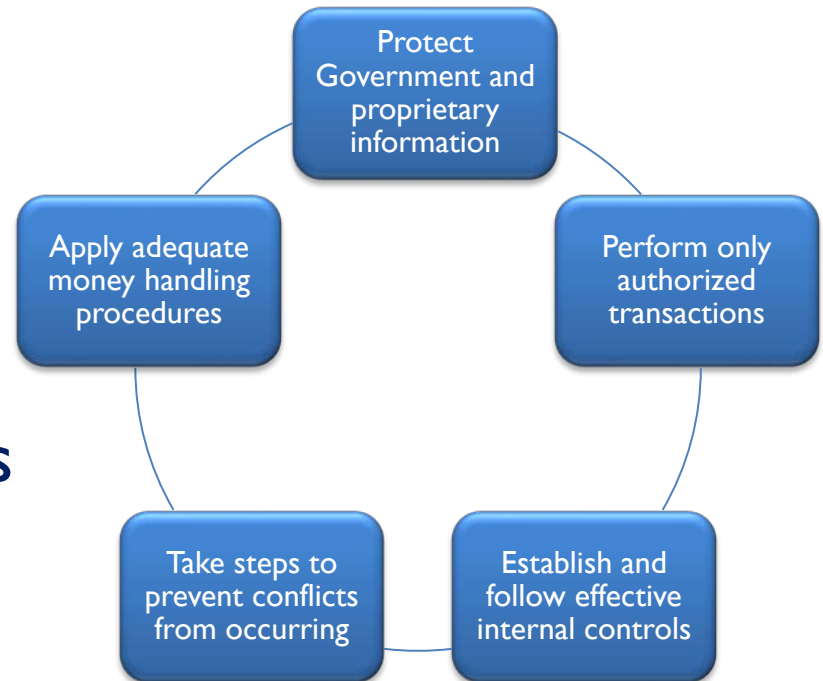
- Use common sense and ask questions
- Perform audits and inventories
- Understand job duties and authorizations
- Maintain supporting documentation
- Protect government, personal, and proprietary information
- Perform only authorized transactions

**Establish Effective Controls!**



## Preventative Controls

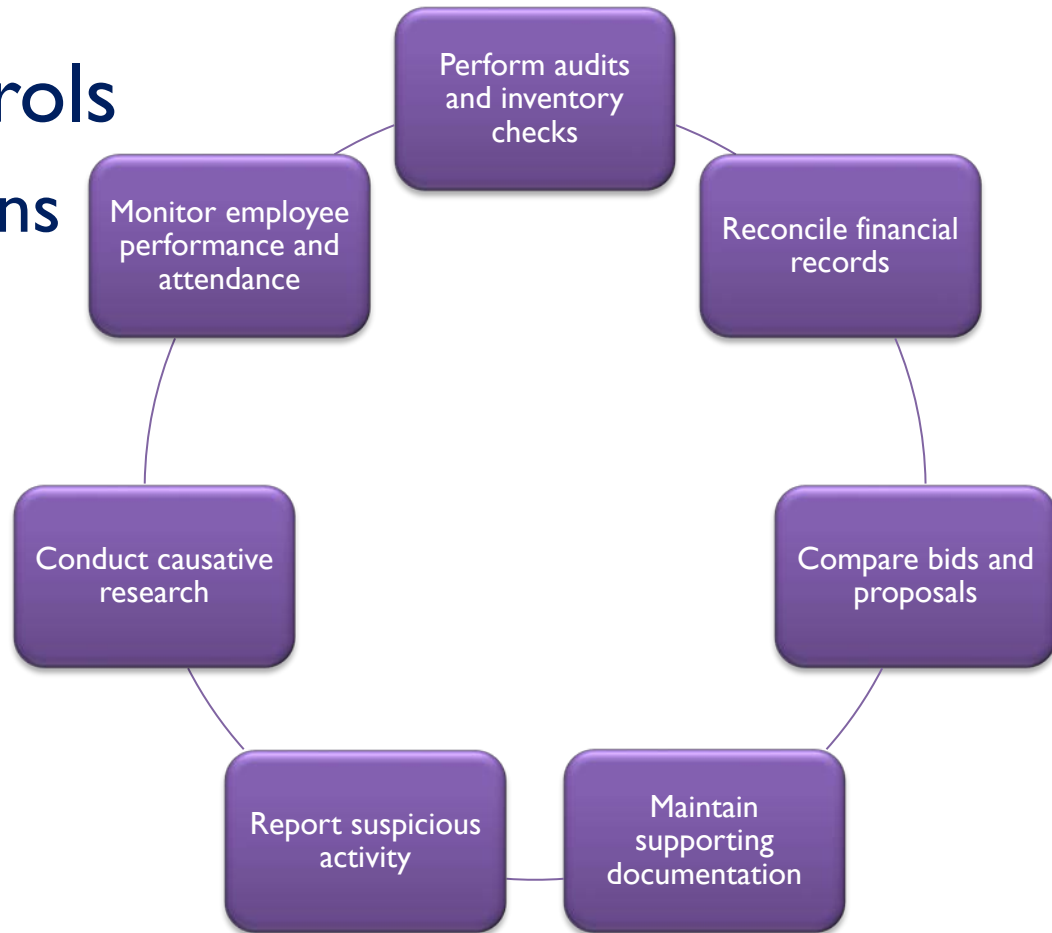
- Segregations of Duties
- Supervisory Approvals
- Physical Safeguards
- Policies and Procedures





# Detective Controls

- Reconciliations
- Hotlines
- Audits
- Monitoring





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## **Skimming Controls**

- Customer involvement
- Video Surveillance
- Unannounced Visits
- Identify and reconcile to alternative records





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## Check Controls

- Separate financial duties within the organization
  - Reconcile bank accounts immediately upon receipt of bank statement
  - Ensure that checks being issued incorporate an appropriate number of security features.



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## Purchase Card Controls

- Dollar limits on daily and monthly transactions
- Restriction by Merchant Classification Codes
- Monthly reviews and approval of purchases by immediate supervisor
- Purchase reviews by a second person, the p-card coordinator



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## U.S. Fish & Wildlife Service

2015-2016 Migratory Bird  
Hunting and Conservation Stamp



Peel Here

*If applicable, peel and attach to hunting license.*



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# DETECT

- ✚ Exceeding authority
- ✚ Overriding controls
- ✚ Gaps in documentation
- ✚ Unusual or inappropriate behavior
- ✚ Unauthorized transactions
- ✚ Conflicts of interest



# Red Flags

## LIFESTYLE

- Living beyond means
- Gambling
- Possible alcohol or drug problems

## ATTITUDE

- Job dissatisfaction
- Feeling underpaid
- Feeling unappreciated
- Pride in beating the system
- Greed





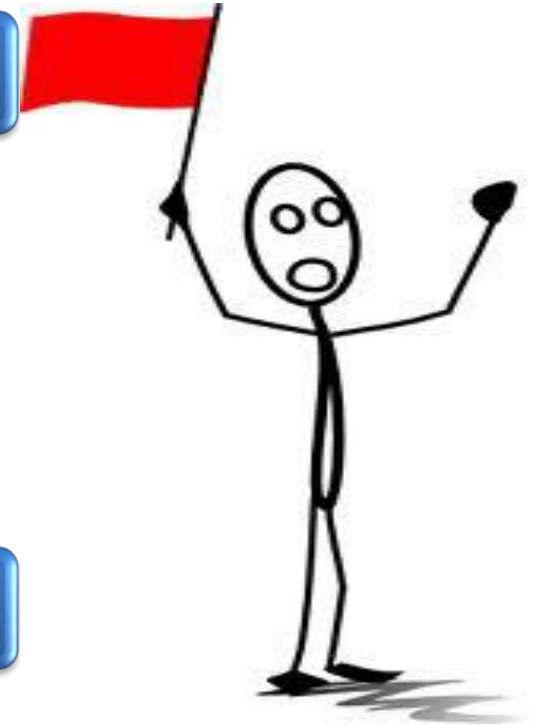
# Red Flags

## **ECONOMIC STRESS**

- Family illness
- Divorce
- Severe personal financial losses
- Family unemployed
- High debt
- Family / friends pressure to succeed

## **WORK HABITS**

- Excessive overtime
- No vacations
- Either avoids or is overly friendly with coworkers





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## 7 KEY WARNING SIGNS



**42%**

Living beyond means



**26%**

Financial difficulties



**19%**

Unusually close association with vendor/customer



**15%**

Control issues, unwillingness to share duties



**13%**

Irritability, suspiciousness, or defensiveness



**13%**

"Wheeler-dealer" attitude



**12%**

Divorce/family problems



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## Top 3 detection methods for the Asia-Pacific Region



44% Tips



15% Internal Audit



11% Management Review





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TOP 4 CONCEALMENT METHODS USED BY FRAUDSTERS



40%

Created fraudulent physical documents



36%

Altered physical documents



27%

Altered electronic documents or files



26%

Created fraudulent electronic documents or files



12% did not involve any attempts to conceal the fraud

Association of Certified Fraud Examiners Report to the Nations: 2020  
Global Study on Occupational Fraud and Abuse



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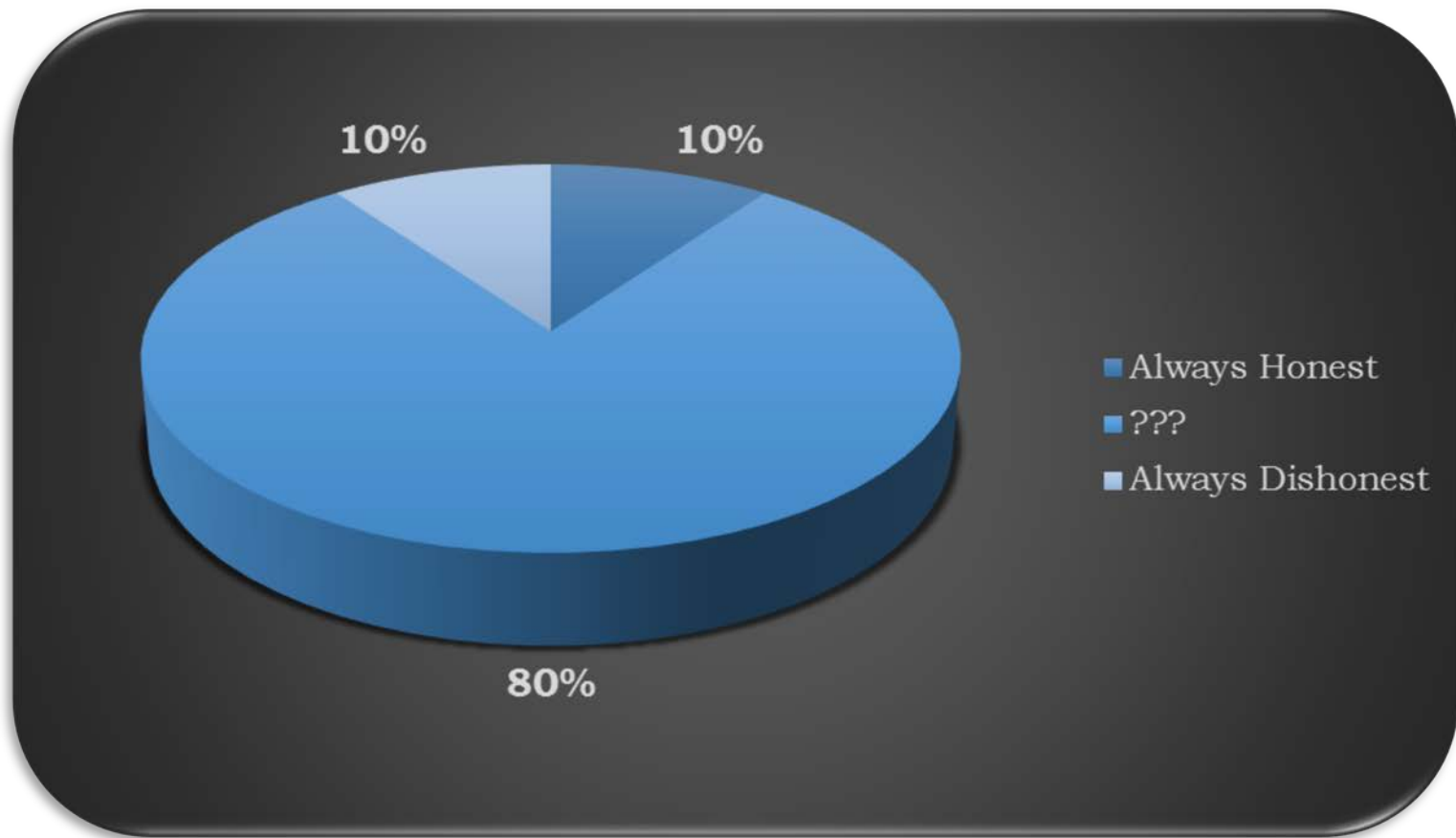
# DISCLOSE

- Agency Supervisor
- Internal Control Program
- Ethics Office
- Human Resources Office
- Office of the Public Auditor
- Office of Inspector General



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# Anyone can commit fraud!





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## How to Reduce Fraud

- Tone at the top
- Policies and procedures
- Training
- Know what to do if you suspect fraud



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*“The goal of oversight is not merely to make our government less wasteful and corrupt, but to **build trust and confidence** in our very system of government.”*

*– Daniel L. Feldman and David R. Eichenthal,  
The Art of the Watchdog:  
Fighting Fraud, Waste, Abuse,  
and Corruption in Government*



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**YOUR ACTIONS  
MATTER!**