



# CASE STUDIES



# OVERVIEW

- How was the scheme reported / discovered?
- Why did it happen?
- What were the Red Flags / Indicators?
- Lessons Learned?



# Fraud Scheme: KICKBACKS





# Red Flags for KICKBACKS

- Unexplained or unreasonable limitations on the number of potential contractors contacted for bid or offer;
- Continuing awards to contractors with poor performance records;
- Non-award of contracts to lowest bidder;
- Technical specifications that dictate contract awards to particular companies;
- Non-qualified and/or unlicensed contractors working on contracts;
- Lack of separation of duties between purchasing, receiving, and storing;
- Purchasing employee's standard of living exceeds their income;
- Ties to political officials



# WHY DO KICKBACKS HAPPEN?

- **Simple greed**
- **Financial hardship**
- **Assertion of power**
- **Cultural norms**



# HOW TO FIND IT

- **Concerned / Disgruntled employees / officials**
- **Complaints from competing contractors**
- **Audit results**
- **Informants**



# MONTANA





# Public Corruption / Kickbacks

## Allegation:

We received a complaint from a Native American Tribal Housing Officer in Montana who alleged her supervisor (the Head of the Tribal Housing Authority **AND** a Member of the Tribal Council) had been fraudulently authorizing Overtime payments for her but did not require her to actually work any Overtime hours. In return for the fraudulent Overtime approvals, her Supervisor instructed her to pay him \$100 as a kickback from each paycheck that she received the fraudulent Overtime pay.



# Public Corruption / Kickbacks

During the course of our investigation, interviews were conducted, documents were collected and analyzed, a phone call was consensually monitored and recorded, and a Video/Audio recording was made of cash being exchanged in the form of a Kickback.



# Public Corruption / Kickbacks

## CONSENSUALLY MONITORED AND RECORDED PHONE CALL BETWEEN OUR COMPLAINANT AND HER SUPERVISOR

During the call:

- The Supervisor stated that he'd always "take care of us"; that he had it "figured all out", and was the "only one who handles your time cards."
- Complainant got him to comment that no other Tribal Council members were aware of their scheme.



# Public Corruption / Kickbacks

## VIDEO AND AUDIO RECORDING (BODY WIRE/CAMERA) SHOWING MONEY BEING EXCHANGED FROM OUR COMPLAINANT AND HER SUPERVISOR

During their encounter:

- She asked him how many times they had done the false overtime / kickback exchange and he said, "6 or 7" ...she responded by saying this exchange was actually their 16<sup>th</sup> time, to which he acted surprised, but agreed that was probably right.
- She said she wondered if their scheme would be discovered and he responded that he had "covered all the bases" and "got it all watched."



# Public Corruption / Kickbacks

## Interview of our Complainant's Supervisor

He was asked how he felt about the allegations of scheduling fraudulent Overtime and receiving kickback payments from his employees that were made against him. He said he did not know anything about it and felt fine.

He was asked if he had ever scheduled any of his employees for fraudulent Overtime and/or received any kickbacks from any employee and he repeatedly said that he never did either of those. After being warned about the consequences of making false statements, he said, "Ok, I lied" and admitted that his previous responses were not truthful.



# Public Corruption / Kickbacks

He confirmed he initiated the fraudulent Overtime plan and said that he did not require her to actually work the Overtime hours, nor did she actually work any of them. He confirmed that in return for the fraudulent Overtime approvals, he instructed our Complainant to give him \$100 from each paycheck she received.

He confirmed that he knowingly submitted false Overtime approvals and received monetary Kickbacks payments 16 times as alleged. He claimed he wanted to reward her for doing a good job as acting supervisor while he was on vacation. He said he only did this with our Complainant and that he did not do it any other times than what we documented from her complaint.



# Public Corruption / Kickbacks

He said their relationship had recently began souring because our Complainant did not agree with his lack of disciplinary action against another employee, whom she did not have a good working relationship. He later asserted that our Complainant did not “get along” with a lot of the other employees.

Based on our investigation, The Supervisor pleaded **Guilty** to 16 counts of 18 U.S.C. 1163, Theft from Indian Tribal Organizations and was sentenced to 364 days in jail, 2 years of probation, 100 hours of community service and \$6,720 in restitution. He was also removed from the Tribal Council.



# LESSONS LEARNED

- Disgruntled employees are a great source of information
- Overtime work caught sooner? Nobody saw her!
- She was known to be “pals” with her Supervisor (Public Official)



# Fraud Scheme: PRODUCT SUBSTITUTION



**CNMI POWER PLANT**



# PRODUCT SUBSTITUTION

- Swapping out high quality materials with low quality to save money
- Sometimes counterfeit materials
- Common in contracts calling for expensive, high grade materials that can be replaced by less expensive, similar appearing products



# RED FLAGS

- **High rate of failure**
  - **Early / frequent repairs**
- **Contractor's bid is unusually low**
- **Contractor conducts its own tests or avoids inspection**
- **Product Packaging**
  - **Generic or unusual**
  - **Lacks normal inserts, such as warranty cards**



# WHY DOES IT HAPPEN?

- **Contractors want to make more money**
- **May have bid too low on contract**
- **May have run into obstacles and need to make up shortages**
- **Good Old-Fashioned Laziness and Greed!**



# HOW TO FIND IT

- **Check all shipping documents**
- **Review contract bids**
- **Visual inspection (sometimes it's that obvious)**
- **Look at the packaging**



# PRODUCT SUBSTITUTION

## Allegation:

OIG received information from the Director of the CNMI Power Plant that a PISTON “had exploded” within a few months of being installed.





# PRODUCT SUBSTITUTION

During the course of our investigation, interviews were conducted.

We didn't find out very much...found that the Power Plant was operating normally when a loud noise was reported and then the pistons were found to have broken. Plant employees stopped all operations immediately.



# CONTRACTS WERE COLLECTED AND REVIEWED

Vendor Proposal Evaluation *3/12/09*  
*\* attach other vendor quotes*

Commonwealth Utilities Corporation  
 Power Plant 1 - Saipan  
 PO Box 581223 Saipan MP 96950; Tel. NO. 1 (670) 322 9249 / 4129 / 4130; FAX No. 1 (670) 322 7087  
 Email: cwgen@cuigov.net

Tracking No.  
 015 - RP E5

DES QH Parts CUC Ref.: PGB 08 - 114

Line No.	Technical	Qty.	Unit Price	Vendor 1	Unit Price	Vendor 2	Unit Price	Vendor 3
				MAN - Germany		CISCO		MHI
34	Cylinder liner (205-092)	18	\$14,876.37	\$267,774.66	\$8,860.00	\$177,300.00	\$30,872.00	\$895,656.00
41	Piston Skirt w/ guide shoes (401-092)	18	\$25,503.43	\$457,791.72	\$3,500.00	\$153,000.00	\$11,947.00	\$541,348.00
42	Piston Head (401-403)	18	\$21,134.54	\$380,421.72	\$8,500.00	\$160,200.00	\$13,581.00	\$248,318.00
Vendor Reference No.:				Quote no. 80 M/B 18385		n/a		YFASDE-3635
Total =				\$1,151,888.1		\$490,500.00		\$1,143,054.0

Comments:  
 1. Recommended to award line item nos. 34, 41 & 42 to CISCO due to lower price quote, and we opted to increase qty. of line no. 41 & 42 to 18 pcs.  
 2. CISCO shall supply OEM new parts

Commercial	Vendor 1 MAN - Germany	Vendor 2 CISCO	Vendor 3 MHI
Cost - CIF Saipan		\$500,500.00	
Delivery - CIF Saipan	12 weeks	15 days after receipt of down payment	12 Months
Freight Cost	n/a	\$10,000.0	n/a
Payment Terms - 1st	Prepayment	50% down payment	50% down payment
Payment Terms - 2nd			
Payment Terms - final	Prepayment	50% within 7 days after receipt of goods	50% within 90 days after issuance of bill
Total Price Quote	\$1,151,888.1	\$500,500.00	\$1,143,054.0

Comments:  
 1. Award above requested parts in favor of CISCO based on lowest price quote - \* SEA FREIGHT - (PARTIAL PARTS FROM AV)  
 2. CISCO shall supply OEM new parts for 60/65 A.

Prepared by / Date: *[Signature]* 3/11/09  
 PG Manager / Date: *[Signature]* 3/11/09  
 Executive Director / Date: *[Signature]* 03/11/09  
 Commonwealth Utilities Corporation  
 CUC -  
 CUC-16-09-C018  
 EX-  
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# TECHNICAL EVALUATIONS DONE

- We had the metal the Pistons were made of analyzed & also sent samples back to the manufacturer for testing.



# PRODUCT SUBSTITUTION

- **Proposal said pistons to come from Netherlands**

**But...**

- **Shipping documents indicate came from South Korea**



# PRODUCT SUBSTITUTION

- Subject denied intentionally providing substandard material
- Case was ultimately declined for prosecution...lack of intent



# LESSONS LEARNED

- Review proposals, bids and contracts thoroughly...no wiggle room on the language used!
- Insist on product being what you asked for!
- Check packaging and shipping documents



# Fraud Scheme: THEFT / FORGERY





# NEW MEXICO





# Theft / Forgery

## Allegation:

OIG received a HOTLINE tip from New Mexico that more than \$30,000 in United States Treasury (Native American Mineral Rights) checks were issued and mailed out to a beneficiary whom the anonymous complainant had heard a rumor that he had died in March 2013.



# Theft / Forgery

During the course of our investigation, interviews were conducted, documents were collected and analyzed, a handwriting analysis was conducted, and a Video Recording was made of a person retrieving the check from the Post Office box. Physical Surveillance was conducted...same individual was later observed endorsing & cashing the check at a local bank.

We concluded that the rightful beneficiary's adult son, who shared the same name, had been receiving and cashing his late father's checks for approximately 5 years and had failed to notify BIA and Social Security that his father had passed away in 2013.



# Theft / Forgery

Based on our investigation, he pleaded **Guilty** to 1 count of 18 U.S.C. 1031, Major Fraud Against the United States and was sentenced to 3 years probation and a \$1,000 fine.

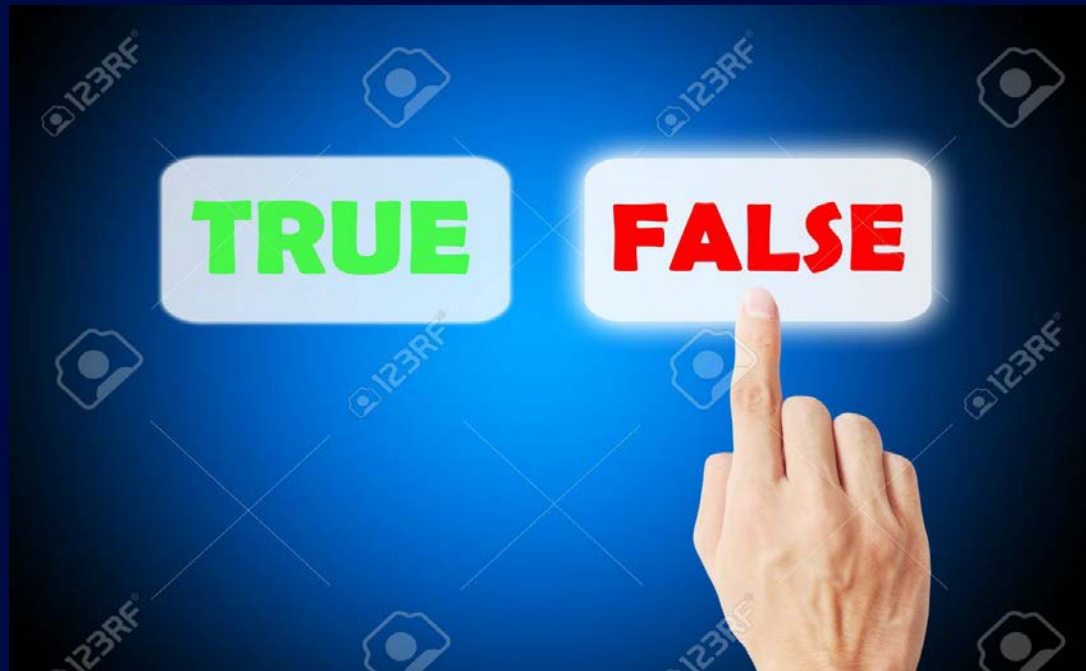


# LESSONS LEARNED

- No process to verify deaths. Family supposed to.
- No in-person meetings were required for payment
- No coordination between Bureau of Indian Affairs and the Social Security Administration
- No requirement that the Tribe contact the BIA to report the death...most people knew he was dead



# Fraud Scheme: False Statements / Non-Payment of Sub-Contractors





# US Virgin Islands





# False Statements / Non-Payment

## Allegation:

OIG received a complaint from a Sub-Contractor in St. Thomas, USVI who stated his company had not been fully compensated by their Prime Contractor (a Construction company based out of Miami, Florida) for the work they did on two projects at Cinnamon Bay Campground and Cruz Bay on St. John (Virgin Islands National Park)

The alleged debt owed to him was approximately \$134,000



# False Statements / Non-Payment

During the course of our investigation, interviews were conducted and contracts were collected and reviewed.

We determined that NPS awarded the Prime Contractor two separate, fixed-price, construction contracts totaling \$265,860 to repair multiple restroom facilities and the Waste Water Treatment Facility.

The Prime Contractor then sub-contracted all the construction work to our Complainant and his locally based company for approximately \$225,000.



# False Statements / Non-Payment

Over an 11-month period, the Prime Contractor received the full \$265,860 from the NPS via 4 separate progress payments.

On each request for payment application to the NPS, she certified she had paid her Sub-Contractor for the work accomplished.

Our Complainant told us that the Prime Contractor had made a few small payments to him during the early phases of both projects but then the payments just stopped. He estimated that she still owed him for approximately 80 percent of the work his company completed.



# False Statements / Non-Payment

## RED FLAG

**We found that two separate Project Managers had both quit the project AND their employment with the Prime Contractor within 4 weeks of the start of the project.**

**Ideas Why?**



# False Statements / Non-Payment

We confirmed that the Prime Contractor had only made 3 payments to our Complainant for both construction projects over a 4-month period early on for approximately \$91,000.



# False Statements / Non-Payment

We interviewed the Prime Contractor who confirmed that she signed the payment applications that were submitted to NPS and acknowledged that each signed payment application meant she certified that all payments had been made to her Sub-Contractor.

She claimed she recognized the certification statements on the payment applications were false but felt she did not intentionally attempt to mislead the NPS.



# False Statements / Non-Payment

We presented our findings to the U.S. Attorney's Office for the District of the Virgin Islands. The Prime Contractor entered into a financial settlement agreement with them to pay \$300,000 in civil penalties and pleaded **Guilty** to violating 18 U.S.C. § 1001 (False Statements). The Prime Contractor and her company were debarred from participation in Federal procurement programs.

She was sentenced to 22 months in prison, followed by three years of supervised release, and was ordered to pay restitution totaling \$135,607.



# Fraud Scheme: ABUSE OF PURCHASE CARD





# COLORADO





# Purchase Card Fraud

## Allegation:

OIG received a complaint from a Management Official in Colorado that someone was making questionable charges with an office Purchase Card. She said she had noticed multiple charges over a 3-month period that seemed questionable. The charges added up to approximately \$7,500.



# Purchase Card Fraud

During the course of our investigation, interviews were conducted, documents were collected and analyzed, and multiple stores / companies were spoken to in order to determine who was making these purchases.

We concluded that the Office Assistant was responsible for making 27 separate personal charges/purchases on that Government Purchase Card including paying her cable television bill, her cellular phone bill, her utility bills, 5 First-Class airline tickets and multiple purchases of groceries including substantial purchases of alcohol.



# Purchase Card Fraud

The Office Assistant pleaded **Guilty** to one count of Felony Theft and was sentenced to one year in prison and ordered to pay restitution of \$7,460 to the Fish and Wildlife Service. She was subsequently fired from Government employment.



# LESSONS LEARNED

- Fraud can happen fast...\$7,500 in two months
- Anyone can commit fraud...she was well liked and exhibited no **RED FLAGS**



# Fraud Scheme: EMBEZZLEMENT





# Red Flags for EMBEZZLEMENT

- Living beyond means / Financial difficulties
- Unusually close association with vendors / customers
- “Wheeler – Dealer” type attitude
- Control issues...Unwillingness to share duties
- Diminishing cash flow when receipts are strong



# Embezzlement

## Allegation:

During an AUDIT, it was uncovered that someone appeared to be stealing cash collected as fees from visitors to a National Park in Hawaii. This park had 2 Payment Station sites where fees were collected from visitors to the park. Visitors paid \$10 per person and the park collected approximately \$500,000 annually in cash. This information was referred to OIG Investigations.

Based on the information we collected, it appeared that the Supervisory Visitor Usage Technician embezzled approximately \$5,500 in cash using a scheme that also included forgery and the destruction of evidence.



# Embezzlement

OIG conducted numerous interviews of park employees and determined that park visitors paid the “Fee Collector” at the Payment Stations. At the end of their shift, the Fee Collector gathered up the cash and produced a “Shift Report” from the cash register.

Once back at the main office, the cash was counted out together by the Fee Collector and the Shift Supervisor and was then reconciled against the “Shift Report” to ensure they were the same amount.

The cash was then wrapped in the “Shift Report” and signed by the Fee Collector and the Shift Supervisor. The Shift Supervisor was **SUPPOSED TO** put the package into the office safe. OIG determined that only the Shift Supervisor had access to the safe.



# Embezzlement

OIG obtained all Shift Reports, cash register rolls, bank deposits, and bi-monthly reconciliation reports.

## OIG found 14 scenarios like these:

A deposit of \$510 was made (which represented cash collections for one week from the park). The Deposit Monetary Reconciliation Report (the form used to show the sources of funds for the deposit) was prepared by the Supervisor. This form showed that Payment Station #1 collected \$510 in cash and Payment Station #2 collected \$0. However, the computerized Shift Reports and register rolls showed that Payment Station #1 actually collected \$550 in cash and Payment Station #2 actually collected \$330 in cash. As a result, the bank deposit was short by \$370.



# Embezzlement

A deposit of \$350 was made. The Deposit Report was again prepared by the Supervisor and showed that Payment Station #1 collected \$250 in cash and Payment Station #2 collected \$100. However, the computerized Shift Reports and register rolls showed that Payment Station #1 actually collected \$800 in cash and Payment Station #2 collected \$200 in cash. As a result, the bank deposit was short by \$650.

The Supervisor was found Guilty on 14 counts of 18 USC 641, Embezzlement of U.S. Funds and was sentenced to 4 years of probation, 6 months house confinement with electronic monitoring, a fine of \$575 and was ordered to pay restitution of \$7,740 to the National Park Service.



# LESSONS LEARNED

- Nobody watched the Supervisor put the package into the safe
- Reconciliations were not done frequently (caught sooner?)
- Supervisor was having financial problems...widely known



**QUESTIONS?**



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