

First Friday Fraud Facts

March 6, 2009

Share your stories

If you have a case you would like to see shared in *First Friday Fraud Facts*, please let us know.

QUESTIONS OR COMMENTS:

Erin Haney, CIA
Statewide Financial Internal
Controls Officer
155 Cottage St NE, U50
Salem, OR 97301

Phone: 503-378-3156 ext. 277

Fax: 503-378-3514

E-mail: erin.d.haney@state.or.us

Inside this issue:

Welcome	1
Fraud in the Public Sector	1
HR Role in the Fraud Watch	2
Join the Fraud Watch	2
HR Fraud Uncovered	3
Fraud Case Overview	3
Training Opportunities	4

Welcome to First Friday Fraud Facts. This edition will cover some statistics regarding fraud in the public sector. In addition, we will address Human Resources and the role it can play in the prevention and detection of fraud, waste, and abuse as well as outline a Human Resource based fraud case.

There are many theories that suggest there is a link between times of economic recession and instances of fraud, waste and abuse. In a recent poll approximately two-thirds of executives thought instances of fraud were likely to increase over the next two years as a result of the economic slow down. However, there are others that suggest the increased focus on fraud drives such statistics. Regardless of the drivers it is more important than every to be aware and alert to the possibilities of fraud in the workplace in an effort to conserve resources and apply them to the programs that meet the needs of the organizational goals and objectives.



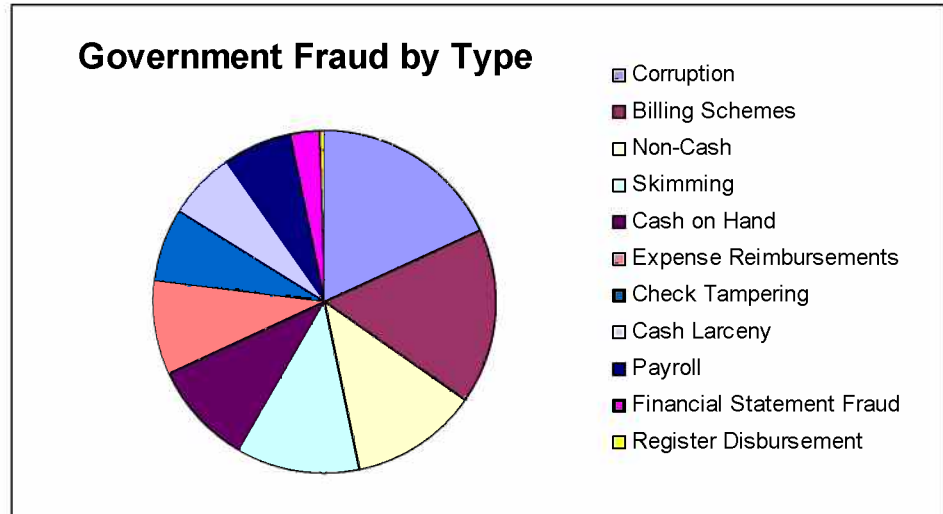
FRAUD IN THE PUBLIC SECTOR

According to the recent *2008 Report to the Nation on Occupational Fraud and Abuse* published by the Association of Certified Fraud Examiners (ACFE), if organizations are lumped into one of four general categories Private, Public, Government, and Non-Profit; then government ranks number three with 18.1% of the fraud cases. However, when further broken down into 21 industries that were rated in the ACFE study, "government and public administration" ranked number 2 in frequency for occupational fraud, second only to the banking and finance sector.

The majority of occupational fraud schemes in the public sector are



the result of corruption (26.4%) or billing schemes (24.5%). Fraud is further broken down by scheme type in the report as follows:



THE ROLE OF HUMAN RESOURCES IN THE FRAUD WATCH

With an unemployment rate of 9.9% and all the signs of that figure rising further, it is important to realize the role that Human Resources (HR) can play in helping your agency to recruit and retain the best employees; which may help reduce the occurrence of fraud, waste, and abuse. HR staff have the opportunity to work with managers to ensure a balanced approach is taken to address fraud issues.

HR can be important in several aspects of fraud detection, prevention, and overall awareness. One key aspect is the front-end role that HR staff play in assisting hiring managers by providing quality reference checks and background checks during the recruitment process. A thorough pre-employment check can include: criminal history check, civil history check, driver's license check, education verification, and employment verification. HR staff can also alert managers to the importance of warning signs and red flags such as changes in attendance, temperament, office behavior, financial distress, office romances and other lifestyle changes that may affect workplace behavior.

JOIN THE FRAUD WATCH

The State Controller's Division (SCD) in conjunction with the Secretary of State Audit's Division has created a pamphlet for state agencies to use in new employee packets and within the agency to promote fraud awareness.

Copies are available and can be sent to you up on request. In addition, an electronic version of the brochure can be found on the SCD Fraud Website:

<http://www.das.state.or.us/DAS/SCD/Fraud.shtml>

HR FRAUD UNCOVERED

Although HR can be a great resource in the fight against fraud, just like any department within an organization it can also be a source of potential fraud. As part of the ACFE's 2008 report on occupational fraud, they analyzed information about the perpetrators. Out of the 800 cases of fraud in which the perpetrator was identified, only seven involved perpetrators from the HR department. This correlates to less than 0.9% of the cases. However, the median loss in these seven cases was \$325,000. This is significantly higher than the overall median loss of the cases included in the study, which was \$175,000.

FRAUD CASE OVERVIEW

This case involves an alleged kickback scheme involving a HR Executive at a major corporation. The individual was the Vice President of HR and was authorized to hire outside recruiting companies to fill certain vacant positions. He was further authorized to approve payments for these services; and so long as the payment was less than \$50,000, no additional approval was needed. In addition, it is alleged that the HR Executive had pre-existing relationships with the "recruiters" prior to any business relationship between them and the victim company.

The charges allege that the HR Executive arranged to receive false copies of invoices from three recruiters for services that were never rendered. The HR Executive would then receive kickbacks from the payments made to the recruiters. In total the allegations indicate that the company was defrauded of over \$1.1 million through the scheme and that the HR Executive received over \$450,000 in kickbacks. The allegations further state that the kickbacks were made to a sole proprietorship established by the HR Executive as a shell company to receive the funds.

The scheme allegedly took place over a two year period before the HR Executive's employment with the victim company was terminated. The former HR Executive and two of the three recruiters were arrested and arraigned in federal courts in December of 2008.



TRAINING OPPORTUNITIES

Using Internal Controls to Better Manage and Monitor your Programs

March 11, 2009 11:00–12:50

Oregon Department of Veteran's Affairs Auditorium

This is a FREE (sponsored by the State Controller's Division) audio conference hosted by the AGA. Registration for this event is limited, if you are interested please send an email to SCDRegistrar@state.or.us. Please be sure to include the following information:

- Name and Date of Training Event
- Attendee Name
- Agency Name & Address
- Email Address
- Phone Number



Human Resource Auditing

April 13–14, 2009 8:30–4:30

Sponsored by the Salem Chapter of the Institute of Internal Auditors

For more information visit the IIA Salem Chapter website:

<http://www.theiia.org/chapters/index.cfm?act=home.page&cid=291>

**FIRST FRIDAY FRAUD FACTS IS
PUBLISHED BY THE STATE
CONTROLLER'S DIVISION**

Statewide Financial Services

155 Cottage Street NE

Salem, OR 97301

Phone: 503-378-3156

Fax: 503-378-3514

<http://www.oregon.gov/DAS/SCD/>

WHO CAN YOU CALL FOR HELP?

The State Controller's Division reminds state agencies that it is always available to answer internal control questions. If you have an internal control problem or an audit finding and need help in resolving it, please contact:

Erin Haney

**Statewide Financial Internal Control
Officer**

erin.d.haney@state.or.us

503-378-3156 x277

Internal control tools are on the Web!

http://www.oregon.gov/DAS/SCD/internal_controls.shtml