

First Friday Fraud Facts

April 3, 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:

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Welcome to First Friday Fraud Facts. This edition will again cover some overall statistics regarding fraud in the public sector. In addition, as government entities begin to deal with the American Recovery and Reinvestment Act of 2009 many new opportunities for new and increased grants are beginning to present themselves. As such, we will address grants and the potential for fraud, waste, and abuse within the grant process.

Fraud, waste, and abuse within the government sector costs everyone. It results in costs to taxpayers, government entities suffer lost revenues, co-workers lose trust, and overall there is a loss of public trust. Government and public administration entities see the second highest reported rate of fraud. Nationwide, governments lost over \$9 billion according to a 2008 report of the Association of Certified Fraud Examiners (ACFE).

CONTRIBUTING FACTORS TO FRAUD

Instances of fraud within Government organizations, on average, have about a 24 month duration and lead to approximately \$100,000 loss. In general, the most commonly cited contributor to fraud is an overall lack of internal controls, followed by a lack of management review and an override of existing controls. Internal controls are a key component of mitigating, detecting, and limiting fraud. Internal audits, surprise audits, and management review of internal controls are thought to be three of the most common controls that help in the fight against fraud.

THE AMERICAN RECOVERY & REINVESTMENT ACT (ARRA)

As many of you are probably aware, the recent passage of the ARRA could lead to an increased potential for fraud, waste, and abuse. It is

that can potentially be a warning of fraud. Some of these include the appearance of conflicts of interest, unaccountable funds, lack of segregation of duties, and altered, inadequate or missing documentation.

WHAT CAN YOU DO

Ensure your organization has a handle on basic internal controls including documentation, approvals and authorizations, transactions are accurately recorded and appropriately reported, adequate segregation of duties exists, assets are appropriately safeguarded, and you can trace the accountability within the organization. It is also important to be aware of some of the areas of potential risk and weaknesses within the organization. Some common areas are providing sufficient resources for segregation of duties, management override of controls, obtaining qualified accounting personnel, and controlling information technology. Operations can also be strengthened by staying alert to possibility of fraud, monitoring operational activities, considering audit findings, and staying aware of internal control weaknesses.

FRAUD CASE OVERVIEW

This case involves a former school administrator. The individual was the administrator for a grant program that was designed to distribute Federal grant monies through the state to local schools and school districts. The money was designated to assist disadvantaged children within the schools and provide services such as counseling and assistance with test taking.

Over the course of seven years the program received over \$900,000 in federal grant funds. The grant administrator was responsible for certifying to state officials the number of qualified students that were in the schools and to whom services were being provided. In addition, the individual was responsible for providing certification to the granting authority showing that the funds had been properly applied. An audit later concluded that the number of students had been grossly inflated to allow the receipt of additional funds. Furthermore, the report concluded that virtually none of the services that the funds were to be utilized for were being provided to the students.

The grant administrator had enough autonomy, lack of oversight, and lack of segregation of duties to falsify these records and go unnoticed. The individual was charged with, and found guilty of, three counts of mail fraud. He was sentenced to 30 months in prison and ordered to pay \$900,000 in restitution.



TRAINING OPPORTUNITIES

Accountability Challenges in Challenging Times

April 9, 2009 10:00–12:00

Oregon Department of Veteran's Affairs Auditorium

GAO's Role in the American Recovery & Reinvestment Act of 2009

April 22, 2009 11:00–12:50

Oregon Employment Department Auditorium

The above listed trainings are FREE (sponsored by the State Controller's Division) training events. For more information on either of these events please visit the State Controller's Division Training website <http://oregon.gov/DAS/SCD/SRS/training.shtml>.

Registration for these events is limited, if you are interested in either event please send an email to SCD.Register@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

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

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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:

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Internal control tools are on the Web!

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