How you can detect and prevent fraud at your program

FRAUD AWARENESS BRIEFING
OFFICE OF INSPECTOR GENERAL
OFFICE OF INVESTIGATIONS
TODAY’S AGENDA

- What kinds of people commit fraud and why do they do it?
- How can you prevent fraud from occurring or detect it once it happens?
- What should you do if you suspect fraud and how can the OIG help?
WHO COMMITS FRAUD?

ORDINARY PEOPLE
WHO COMMITS FRAUD?

- Well-educated
- Family-oriented
- Trusted, long-term employees
- No prior criminal record
WHY PEOPLE COMMIT FRAUD
THE “FRAUD TRIANGLE”

PRESSURE

OPPORTUNITY

RATIONALIZATION
Most people who commit fraud have financial pressures

- Needing more money for
  - Extravagant lifestyle
  - Unmanageable debts
  - Vices like gambling
  - Addictions
OPPORTUNITY TO COMMIT THE FRAUD

- Managers not managing
- Either not having good financial practices or having them and not following them
- Failure to follow LSC regulations and guidelines
- People misusing their positions
MOST PEOPLE RATIONALIZE THEIR FRAUD

People who commit fraud will justify what they did and say:

- “I didn’t hurt anyone”
- “It’s only a short-term loan”
- “I deserve it”
- “Everybody else does it”
FRAUD IS LIKE FIRE:

#1: Prevent Fraud from Happening

#2: Detect Fraud Early

#3: What Happens if Fraud Is Not Prevented
STEP 1: PREVENTION
HOW YOU CAN PREVENT FRAUD

Everyone
- Be ethical
- Follow the rules
- Bring problems to management
- Learn about fraud and how to prevent it
- Report conflicts

Managers
- Set right ethical “tone at the top”
- Establish and follow internal controls
- Help employees with problems
- Don’t just rely on auditors
PREVENT FRAUD BY COMPLYING WITH RULES

- Know the rules, e.g., LSC timekeeping
- Follow rules, e.g., keep contemporaneous time records
- Ensure compliance, e.g., supervisory review
- Be aware that non-compliance is a fraud indicator
STEP 2: DETECTION (EARLY DETECTION)
HOW YOU CAN DETECT FRAUD

- Missing or altered or incomplete documents
- Lack of or overriding existing controls
- Unexplained cash shortages or overages
- Excess purchases, inventory shortages
- Extravagant lifestyles, unusual behaviors, unexplained absences
HOW YOU CAN DETECT FRAUD, cont.

- Conflicts of interest between employees and vendors
- Lack of supporting documentation for purchases and reimbursement requests
- Use of grantee resources for outside cases or outside employment
- Accessing grantee databases at unusual times or for unusual purposes
STEP 3: INVESTIGATION

WHAT CAN HAPPEN IF FRAUD IS NOT PREVENTED OR DETECTED EARLY
ADDITIONAL EXAMPLES OF FRAUD AT LSC PROGRAMS

RESULTS OF OIG INVESTIGATIONS
OFFICE MANAGER MADE IMPROPER SALARY ADVANCES AND BONUSES, BOTH TO HERSELF AND HER FAMILY MEMBERS
JULIE’S CHECKBOOKS

WHERE DID THE MONEY GO?

$130,000

Salary Advances
Bonuses

Self
Three daughters
Son-in-law
Friends

$30,000

Salary Advances
Bonuses

David ED

TOTAL FRAUD OVER $160,000
BENNY’S MISSING GOODS

CFO STOLE PROGRAM FUNDS BY CREATING A BOGUS OFFICE SUPPLY COMPANY
BENNY’S MISSING GOODS

Benny, CFO

Sonny, Friend of Benny

Bogus Office Supply Company

LSC Program

90 CENTS ON THE DOLLAR

10 CENTS ON THE DOLLAR

TOTAL FRAUD OVER $1.2 MILLION
CHERI’S “WANDA-LUST”

OFFICE MANAGER WROTE PROGRAM CHECKS TO HERSELF
CHERI’S “WANDA-LUST”

TOTAL FRAUD OVER $195,000
CRUISING WITH LEO

City B
Trips - 28
Loss – $7,276.80

City A
Trips – 218
Loss - $42,137.82

City C
Trips – 272
Loss - $84,530.52

Grantee Office

TOTAL FRAUD OVER $130,000
GABBY’S GREED

EMPLOYEE WORKING THE INTAKE DESK POCKETED FILING FEES FROM CLIENTS
Kevin’s Attorney Fees

MANAGING ATTORNEY STOLE COURT APPOINTED ATTORNEY FEES BELONGING TO THE PROGRAM
Kevin’s Attorney Fees

County Court A

County Court B

Kevin’s Company

Total Fraud Approximately $25K
SUBGRANT FRAUD

LACK OF GRANTEE FISCAL OVERSIGHT, IMPROPER CONTRACTING, AND REIMBURSEMENTS FOR PERSONAL EXPENSES
SUBGRANT FRAUD

CASE ONE

FAMILY CHRISTMAS CARDS, PERSONAL PARTY INVITATIONS, ARTWORK

PERSONAL MEALS AND TRAVEL FOR HERSELF AND FRIENDS

TOTAL LOSS OVER $35,000

CASE TWO

FRAUDULENTLY CONTRACTED WITH HUSBAND FOR CLEANING SERVICES

PROGRAFOR FAMILY’S M PAID CELL PHONE EXPENSES

PROGRAM PAID FOR FAMILY’S GYM MEMBERSHIP

TOTAL LOSS OVER $50,000

EXECUTIVE DIRECTOR
OUTSIDE PRACTICE OF LAW

ENGAGED IN OUTSIDE PRACTICE IN VIOLATION OF LSC REGULATION 45 C.F.R. 1604
Compensated civil cases for non-program clients.

Fees not remitted for court appointed cases.

Absent from office most of the day. No leave taken.

Used program name & address on pleading for non-program clients.

Program support staff work on private cases.

OVER $20,000 QUESTIONED COSTS
OUTSIDE EMPLOYMENT

Paralegal Services, LLC

Translation Services, LLC

Tech Support, LLC
RESTRICTED ACTIVITY

PROGRAM PRODUCED PAMPHLET THAT VIOLATED LSC REGULATION 45 C.F.R. 1608 PROHIBITING ANY POLITICAL ACTIVITY.
WHAT SHOULD YOU DO IF YOU SUSPECT FRAUD?
CONTACT THE OIG HOTLINE

- Report your suspicions early to avoid problems getting worse
- Your call can be confidential and can be made anonymously
- LSC Grant Assurances protect you from retaliation for reporting
- LSC programs have to promptly report fraud to the OIG
OIG HOTLINE
CONTACT INFORMATION

- **Phone:** 800-678-8868
  202-295-1670
- **Fax:** 202-337-7155
- **E-mail:** hotline@oig.lsc.gov
- **Mail:** P.O. Box 3699
  Washington, DC  20007-0199
QUESTIONS