



Public Sector Fraud

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The Public Sector

- ▶ Offers “Bad Actors” opportunities for fraud that may be similar to those in the private sector, but may be somewhat different
- ▶ We will explore some of the most likely fraud scenarios
- ▶ Focus will be on detection and prevention



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Public Sector Fraud (as defined by World Bank)

- ▶ Bribery, Corruption, and Misuse of Authority during public procurement
- ▶ Theft and Skimming
- ▶ Fraudulent Expenditure Claims
- ▶ Ghost Payroll Fraud

Some Examples

Procurement Fraud

- ▶ Sole Source Procurement
- ▶ Inappropriate Vendor Communications (Favored Vendor)
- ▶ RFP to one specification, accepting lower quality
- ▶ Acknowledging receipt of quantities not received
- ▶ Kickbacks

Theft and Skimming Fraud

- ▶ Misappropriation of Assets
- ▶ Skimming of Receipts
- ▶ Diversion of Balances

Fraudulent Expenditures

- ▶ Travel
- ▶ Disbursements
- ▶ Fictitious Vendor

Payroll Fraud

- ▶ Ghost Employees
- ▶ Inequity, favoritism, nepotism

Red Flags

(as defined by World Bank)

- ▶ Pressure from an external party (ie. Political Structure)
- ▶ Legislation, policies, and procedures that are not applied equally
- ▶ Poor IT systems and lack of appropriate IT Security
- ▶ Centralized decision making which risks undermining the necessary segregation between procurement, contracting, and approval
- ▶ New programs or early stages of programs with effective controls not yet in place
- ▶ No procedure in place for punishment for fraudulent activities
- ▶ Overriding of controls by management and officers on the grounds of urgent need

Red Flags

(as defined by World Bank)

- ▶ High turnover rate, dismissal, or reassignment of key employees; lack of technical expertise for assigned role; insufficient human resources to implement control procedures
- ▶ Senior managers under intense pressure to meet high targets
- ▶ Presence of non-routine transactions that lack proper approval or are not supported with appropriate documentation
- ▶ Disgruntled employees who convey dissatisfaction with the job, compensation, etc
- ▶ Large volumes of related party activities undertaken outside of the normal course of operating activity

YELLOW BOOK

- ▶ 7.44 Auditors should include in their examination report the relevant information about noncompliance and fraud when auditors, based on sufficient, appropriate evidence, identify or suspect
 - ▶ a. noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a material effect on the subject matter or an assertion about the subject matter or
 - ▶ **b. fraud that is material, either quantitatively or qualitatively, to the subject matter or an assertion about the subject matter that is significant to the engagement objectives.**

Fraud Risk Assessment

(as defined by World Bank)

- ▶ All organizations should perform an assessment of fraud risks
- ▶ When identified, plan how to monitor, address and mitigate fraud risk
- ▶ During assessment, consider how weaknesses in control system may be exploited, whether controls can be overridden, and prior experience with fraud

Fraud Risk Assessment Includes:

- ▶ Identifying inherent fraud risks (internal and external)
- ▶ Assess Likelihood and Significance (Materiality) of identified risks
- ▶ Identify existing preventative and detection controls
- ▶ Map controls to relevant fraud risks and assess effectiveness of the controls to mitigate risk
- ▶ Evaluate residual fraud risk from ineffective or non-existent controls
- ▶ And ...

Fraud Risk Assessment Includes:

- ▶ Develop comprehensive fraud plan that includes:
 - ▶ Assigning an appropriate person to address the risk
 - ▶ Implement systems to monitor the risk
 - ▶ Consider alternative controls to mitigate the risk
- ▶ World Bank suggests updating the fraud risk assessment at least every 2 years. Others suggest at least annual updates.



Questions?

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