WHY DO THIS SESSION?

- Fraud in Weatherization can happen!
- It has happened in Michigan!
- Let’s go there…
**FRAUD, WASTE & ABUSE**

**Fraud** – An intentional deception that violates a law or the public trust for personal benefit or the benefit of others.

**Waste** – Behavior involving the extravagant, careless, or needless use of government funds, property, and/or personnel.

**Abuse** – Behavior involving the use of government funds or property that a prudent person would not consider reasonable and necessary business practice given the facts and circumstances.
“Obviously, people lie when they’re trying to hide something. I did it too.”

Statement by a fraudster | personal interview
Studies have confirmed the following features which recur with white collar criminals:

- impeccable reputation
- abuse of professional position
- above-average level of education and creativity
- criminal energy is not discernible
- can come from any area of expertise, independent of sector
- has been working for the company for more than five years
“You can write the best manuals and draw up the best work processes – but if something is urgent, and in emergencies, things never run to plan.”

Statement by a fraudster | personal interview
Even after talking to a dozen different white collar criminals, I was still impressed at how unbelievably courteous and charming they are. It is these traits which enable fraudsters to win the trust and empathy of those around them with playful ease. To a certain extent, this character trait prevents those around them from objective assessments. This dangerous ability creates the perfect breeding ground for fraud. Controls, for example, are neglected. As a head fraud investigator, I often hear people say, “I thought this employee was a person of complete integrity. Of all people, he was the one I would have believed least likely of committing such an offence.”
The white-collar victim sees himself as the victim of unfortunate circumstances. Fraudsters of this type tell me they were under enormous pressure. They explain their fraudulent behavior as their attempt to resolve an insoluble problem. Under normal circumstances, this profile of a fraudster is an exemplary employee who follows rules to the letter and would never hurt anybody. As a result, those around him are surprised and even shocked at his fraudulent behavior.
The **pin-striped predator** consciously seeks and patiently awaits opportunities to commit fraud. Such a person is remarkably disciplined and focused and translates his visions into action. His belligerent attitude makes him an opponent who needs to be taken seriously. With playful ease, he manipulates his superiors, public accountants and any regulatory bodies who have little experience in fraud. He is extremely skilled in organizing complex techniques for evading discovery. To create confusion and uncertainty in an impending investigation, he creates false leads in advance to throw others off the scent.
The **hedonistic narcissist** has an exaggerated opinion of himself, is arrogant, and is not open to criticism. He commits fraud because he is convinced, he is so uniquely clever that he’ll never get caught. Stuck in a groove, this profile of a fraudster loses all grip on reality regarding money. His sense of entitlement is obsessive. However, financial considerations are not his sole motive. He also enjoys the cat-and-mouse game, demonstrating his superiority and getting an adrenalin rush. For such a person, the chase to win admiration is exciting – and never-ending.
The **gullible victim** regards himself as a social creature. In the eyes of the fraudster, he is being exploited by profiteers. Offenders of this type do not actively search for opportunities to commit fraud. But to maintain a relationship, or to revenge themselves for a disappointment, they are willing to commit serious economic crimes. Such persons will engage in fraudulent behavior for a higher purpose, or to overcome separation anxieties.
Detection Method by Scheme Type

- **Asset Misappropriation**
  - Tip: 31.8%
  - Internal Audit: 16.7%
  - Management Review: 11.2%
  - Account Reconciliation: 6.3%
  - By Accident: 2.8%
  - Other: 5.4%
  - External Audit: 3.7%
  - Document Examination: 3.5%
  - Notified by Law Enforcement: 2.2%
  - Surveillance/Monitoring: 1.9%
  - IT Controls: 1.4%
  - Confession: 1.2%

- **Corruption**
  - Tip: 46.0%
  - Internal Audit: 16.5%
  - Management Review: 14.1%
  - Account Reconciliation: 4.0%
  - By Accident: 4.5%
  - Other: 6.5%
  - External Audit: 6.7%
  - Document Examination: 3.5%
  - Notified by Law Enforcement: 3.4%
  - Surveillance/Monitoring: 0.0%
  - IT Controls: 0.4%
  - Confession: 3.1%

- **Financial Statement Fraud**
  - Tip: 37.3%
  - Internal Audit: 18.8%
  - Management Review: 14.8%
  - Account Reconciliation: 6.3%
  - By Accident: 4.5%
  - Other: 9.4%
  - External Audit: 6.7%
  - Document Examination: 3.5%
  - Notified by Law Enforcement: 4.0%
  - Surveillance/Monitoring: 1.9%
  - IT Controls: 1.1%
  - Confession: 0.6%
HUMAN FACTOR WARNING SIGNS

- Possible fraudulent act triggers
  - Personal debt
  - Medical bills
  - A spouse losing a job
  - An ailing parent moving in
  - Drug or alcohol use
  - Gambling
  - An inability to control spending
Living beyond means  Financial difficulties  Unusually close association with a vendor or customer

Wheeler-dealer attitude  Control issues, unwilling to share duties  Divorce/family issues

These six have been the most common red flags since this data was first tracked in 2008. The ACFE found that approximately 79% of perpetrators exhibited at least one of these six during their employment.
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<th>CHARACTERISTICS</th>
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<td><strong>42 percent</strong> were staff-level employees, and <strong>36 percent</strong> were mid-level managers.</td>
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<td><strong>Two-thirds</strong> were male.</td>
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<td><strong>55 percent</strong> worked alone in committing their scheme.</td>
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<td><strong>52 percent</strong> were between the ages of 31 and 45.</td>
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<td><strong>47 percent</strong> had worked for the victim organization for less than six years.</td>
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<td><strong>72 percent</strong> had at least some university education.</td>
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<td><strong>45 percent</strong> worked in the accounting, primary operations, or sales functions of the victim organization.</td>
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<td><strong>87 percent</strong> were first-time offenders with no criminal history of fraudulent behavior.</td>
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<td><strong>44 percent</strong> were known to be living beyond their means.</td>
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Internal control, as defined in accounting and auditing, is a process for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. A broad concept, internal control involves everything that controls risks to an organization.
**INTERNAL CONTROLS**

- **Internal controls** are the mechanisms, rules and procedures implemented by a company to ensure the integrity of financial and accounting information, promote accountability and prevent fraud.
The **control environment** is the company's attitude toward internal controls. Known as "**tone-at-the-top**," the control environment is a **necessary condition** for effective internal control, because even the best-designed systems can be thwarted if management overrides the controls that are in place.
SEVEN INTERNAL CONTROL PROCEDURES

- Separation of duties
- Access controls
- Physical audits
- Standardized documentation
- Trial balances
- Periodic reconciliations
- Approval authority
LESSONS LEARNED FROM LIVING THROUGH IT
THE PROGRAM MANAGER’S PERSPECTIVE
QUESTIONS FOR THE GROUP

- What is the most stressful situation you have faced as a Weatherization Program Manager?
- What was your biggest fear during that situation?
- What did you learn from surviving the situation?
- Why did you press forward to see it through?
THIS REALLY STINKS – A LOT!

- Burdens to Bear
  - Time
  - Stress & Anxiety
  - Program Operations
  - Red Flags
  - Changes to Processes
THE BURDEN OF TIME

What is the cost of time?

- Hours digging through receipts
- Discovering clues
- Weekend work efforts
- Reconciling fake invoices with actual job costs
- Gathering information for federal & state investigators
- Waiting for progress in the investigation
- Time just dealing with feelings…
STRESS & ANXIETY

- There are no words...
  - What will happen to the program?
  - How will staff be impacted?
  - Will I have to testify?
  - What if the perpetrator stops by?
  - Security of investigative material
  - Am I in danger? Is my family safe?
  - Not being able to share what is happening
  - Intimidation of being interviewed by federal investigators
STRESS & ANXIETY

- There are no words… continued…
  - My name used wrongfully
  - Will the Program survive?
  - Have clients been left in harms way?
  - Stress effects work mood, home life, personal well being
  - What will come next? What is the next surprise?
  - Changing the way production is performed – total change-up
  - Staff reactions
  - Why do I do this everyday?
Where is the light at the end of the tunnel?

- Where do I learn Program Management?
- Running a Program in the middle of a fire
- Keeping information from staff
- Staff issues, disciplinary issues and major changes
- Getting services to clients!
- Meeting Production!
- Maintaining or keeping the trust of clients & community
Lesson learned the hard way…

- On-line shopping at work
- Items delivered not Weatherization related
- Money comments & discussions
- Final inspection scheduling
- Funding codes a mess
- Issues with credit card charges & purchases
- What activity really happens during work hours
CHANGES TO PROCESSES

- **What do we do now?**
  - Following policy a must
  - Approach everything like it will be audited
  - New process for vetting vendors
  - New check processing policy
  - More restricted access to credit cards
  - WX file spot checks by Program Manager
  - Educated staff on what to look for and recognize
  - Educated staff on funding codes – what is proper
SURVIVAL OF THE FITTEST

- How do you survive?
  - How do you answer that question?
  - What are the risks of working through situations like this?
  - Why would you endure this situation?
ROLES & RESPONSIBILITIES AT AGENCY LEVEL
What do you think the role of the Financial Manager/Director is in financial management?

- Establish policies and safeguards in accordance to 2 CFR 200 & Generally Accepted Accounting Principals
- Develop Internal Controls
- Test Internal Controls
- Never be or accept a single signature payment system
- Ensure all funds spent appropriately within program guidelines
- Ensure all federal & state reporting is correct & timely
ROLE OF FINANCIAL MANAGER/DIRECTOR

Role list continued…

- Open and complete general ledgers that are easy to follow
- Test Internal Controls
- Establish and enforce procurement standards and practices
- Be aware of how “fraudsters” operate
- Take to heart any tips received
- Never be so removed from approval and payment processes that you do not see what is processed and paid
- Tracking proper claiming and payment of staff time and salaries
What are your thoughts on this relationship?

- Sharing of information is a NECESSITY – honest, open and often!
- FEDERAL DOLLARS!!
- Sharing/discussion regarding the average cost per home and production
- Sharing how WAP funds are used
  - How much space rent do you pay?
  - What magazine subscriptions do you pay for?
  - How are the utility expenses shared across programs?
  - How do you know LIHEAP & DOE jobs are handled correctly?
RELATIONSHIP OF WEATHERIZATION MANAGER AND FINANCIAL DIRECTOR

- Relationship thoughts continued…
  - FEDERAL DOLLARS !!!
  - Needed approval from the Weatherization Manager
  - Open and thorough communication is CRUCIAL!
  - If something seems off, ASK QUESTIONS!
  - Are changes ever made after the WAP Manager has approved the expense?
  - Regular, open discussions between the WAP & Finance
  - Regular, clear reporting on all expenses
QUESTIONS?

- Questions?
- Comments?
- What are your take-away points?
- Thank you for being here!