Fraud prevention – lets each do our part

Highlights

- Fraud, waste and abuse can happen anywhere in state government.
- If fraud, waste, and abuse happens it negatively impacts each state employee, each state agency, and every Minnesota taxpayer.
- November 12-18 is “Fraud Awareness and Prevention Week in the State of Minnesota.”
- Go to MN.Gov/Nofraud to learn more about Fraud Awareness and Prevention Week in Minnesota.

The National Association of State Auditors, Comptrollers and Treasurers (NASACT) September 18 newsletter caught my eye:

- Mississippi: Investigation Uncovers Alleged Embezzlement.
- New Mexico: State Auditor Uncovers Likely Fraud, Embezzlement at La Promesa School.
- Ohio: Ex-Niles Auditor in Court on Theft in Office and Bribery Case
- Oklahoma: Mansville Audit Reports ‘Possible Misappropriation of Funds.’
- More from Oklahoma: Cleveland County Sheriff’s Office Audited for Mismanagement of Funds.

All that government-related fraud reported for ONE WEEK!

Association of Certified Fraud Examiners (ACFE) studies indicate government is the second most targeted industry for fraud behind only the banking and financial services industry. Fraud can happen anywhere in state government, including your agency, your division, or even your business unit. If fraud happens, there is personal impact - maybe less money for pay raises or training opportunities. There is agency impact - from a tarnished reputation to resources taken from key agency projects to investigate the fraud. But that’s not the end. There is public taxpayer impact - higher taxes or increased cost of government services could result.

Awareness is key. Discard the myth that fraud only happens in other states or other agencies. This line of thinking increases fraud risk. Employees who do not believe fraud is possible may ignore obvious red flags or not question or report irregularities. Managers who do not acknowledge fraud is possible may not allocate resources to assess fraud risk, or establish and monitor anti-fraud controls.

The fraud triangle theory suggests three things are generally present when fraud happens: (1) a need or pressure for the perpetrator to commit fraud; (2) rationalization by the fraudster for committing the act; and (3) an opportunity to act undetected.

No organization can control the pressures that cause employees to commit fraud, or employees’ rationalization of fraudulent actions. However, strong internal controls limit opportunities for fraud and therefore, reduce risk. Critical anti-fraud controls include code of conduct and ethics policies, separation of incompatible duties, review and approval of large and complex transactions, reconciliation of bank and general ledger accounts, and strong documentation.

Even the best fraud prevention efforts cannot eliminate fraud. This makes employee detection an important counterpart to strong internal controls. Employees on alert for common red flag indicators of possible fraudulent activity and other irregularities minimize incidents of fraud, waste, and abuse in state government.

Based on ACFE studies, tips are the most common fraud detection method. Which is one reason the statewide Code of Conduct Policy requires each agency to establish reporting mechanisms for employees to report known or suspected instances of fraud, waste, and abuse. Regular fraud training reminds employees fraud prevention is part their daily job responsibilities. Employees have a duty to report when something unusual or improper is spotted.

Suggested Action Steps: November 12-18 is Fraud Awareness and Prevention Week. This week raises state employee awareness about the impacts of fraud and educates on fraud prevention, detection, and reporting techniques. All state employees, including managers and senior leaders should participate in fraud awareness week training activities. Take Action Now - Together we fight fraud.

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