

THE FRAUD TRIANGLE



It is up to you

You are the front-line of helping to prevent fraud, waste and abuse in the Commonwealth. Every dollar that is saved in terms of fraud, waste and abuse can be used to fund existing or new programs. The purpose of the Commonwealth's fraud, waste and abuse initiative is to help you focus on specific issues relating to your job and to provide tools that will allow you to be proactive against fraud, waste and abuse.

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EXAMPLES OF "RED FLAG" FRAUD INDICATORS

- Watch for different contractors making identical errors on bids.
- Contractors that hire losing bidders as subcontractors.
- Insufficient justification for change orders.
- A vendor's address is incomplete or matches an employee's address.
- Goods invoiced, but no matching receiving reports.
- Unsigned certifications for work performed/services delivered.
- Photocopies or scanned documents submitted when originals are expected.
- Timecards filled out by supervisors instead of employees.

For additional detail, see: Comptroller's web site – Internal Controls page.

Report Fraud, Waste & Abuse

Commonwealth Hotline Numbers

Inspector General: (800) 322-1323 to report suspected fraud, waste, or abuse in government.

Attorney General: Fair Labor Helpline (617) 727-3465 to report violations of minimum wage and overtime laws and requirement for timely payment of wages.

Division of Unemployment Assistance: (800) 354-9927 to report unreported wages or persons collecting benefits while working.

State Auditor: (617) 727-6200 for state agencies to report variances, losses, shortages, thefts of funds or property.

Whistleblower Protection is the Law

Commonwealth public employees are protected by:

[M.G.L. c. 149, s. 185](#) and [M.G.L. c.12A, §14\(c\)](#)

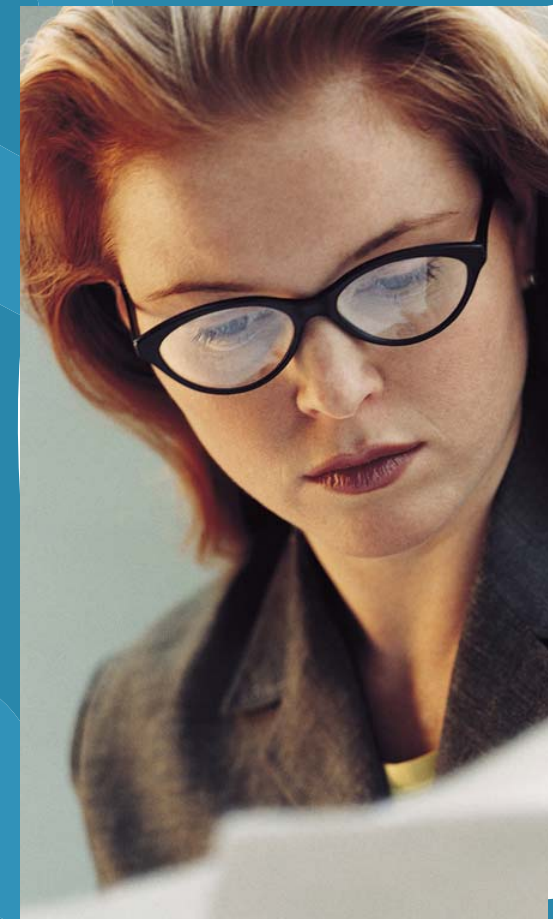


Martin J. Benison
Comptroller

Commonwealth of Massachusetts
Office of the Comptroller
One Ashburton Place, Room 901
Boston, Massachusetts 02108

Internet <http://www.mass.gov/osc>

It's Everyone's Job to Combat Fraud, Waste and Abuse of Public Funds



TYPES OF FRAUD

- Bid Rigging and Collusion
- Bribery
- Kickbacks
- Conflicts of Interest
- Materials Overcharging
- Product Substitution
- Quality Control Issues
- Time Overcharging

While there is no 100% preventative measure against all forms of fraud, waste and abuse, departments can take many measures to prevent, detect, mitigate and learn from instances of their occurrences.

For any applicable measures that require performance of routine tasks, you must document how those tasks are performed in your policies and procedures – who checks what and how often, and what is done in response to a finding / anomaly / unexpected event, etc.



MANAGE SMART

- Perform oversight of prime /sub /vendor contract requirements to ensure agency gets what it pays for.
- Do unannounced site visits.
- Develop an effective vendor monitoring plan.
- Have a sign out sheet for items that are susceptible to theft.
- Data match vendors or beneficiaries to employee addresses.
- Spot check vendor time sheets to match invoices.
- Independently verify all vendor record changes.
- Establish protocols and approval for physical and logical access to IT systems and the protection of any personally identifiable Information (PII).

You can help combat fraud, waste and abuse

- **Set the tone:**
Each state agency should have a Code of Conduct that meets or exceeds the provisions of MGL Chapter 268A, promotes the highest standards of ethical behavior and is distributed to all employees.
- **Assess Risk:**
Fraud risks should be included in the enterprise risk assessment conducted as part of your Internal Control Plan development.
- **Write it down:**
Agencies, particularly those new to operating or managing state and/or federal funds, or that have new program or business areas, should fully document or update all policies, procedures and processes.
- **Control it:**
Update internal controls with activities that mitigate fraud risks specific to your organization.

- **Take time to train:**
Document that all staff involved with financial transactions and programmatic processes, are trained.



- **Break it up:**
Verify that segregation of duties is in place. These measures should be applied consistently across the agency and in all locations. Cross-train staff or rotate jobs if necessary.

- **Watch the little things:**
Review all documentation and reconciliations for unusual entries or deviations from programmatic purposes. Examples: check for corrections, amounts that appear too high or low, management overrides, duplicate invoices.
- **Spread the word:**
Alert sub-recipients and vendors as to their responsibilities for reporting fraud, waste and abuse.
- **Check it out:**
Verify that agency guidelines regarding background checks have been followed for applicable employees and new hires.

BUY SMART

- For procurement of goods/services, use the Commonwealth's Standard Contract Form and Terms and Conditions.
- Check bidders/vendors/contractors for debarment or exclusion from any public activity due to violations of law or suspended licenses, etc.
- Check that goods/services are provided in accordance with standards and contract terms.
- Buy goods and services only when needed.
- Segregate responsibility for ordering and receiving goods.

THINK LIKE A TAXPAYER BECAUSE YOU ARE ONE

See a detailed checklist of tools at the Comptroller's web site, Internal Controls page.

According to the Association of Certified Fraud Examiners:

- Fraud is extremely costly. The median loss caused by frauds is \$175,000. More than 25% of the frauds involved losses of at least \$1 million.
- The typical fraud lasts two years from the time it begins until the time it is caught.
- Lack of internal controls is often cited as a factor in allowing fraud to occur.
- People who commit fraud are generally first time offenders.
- Behavioral red flags include people living beyond their means or experiencing financial difficulties.