



# Office of Children's Services

Empowering communities to serve youth

**Fraud, Waste, and Abuse Risks and CSA**

April/May 2019

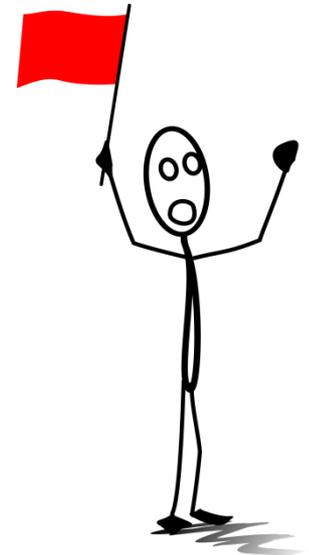
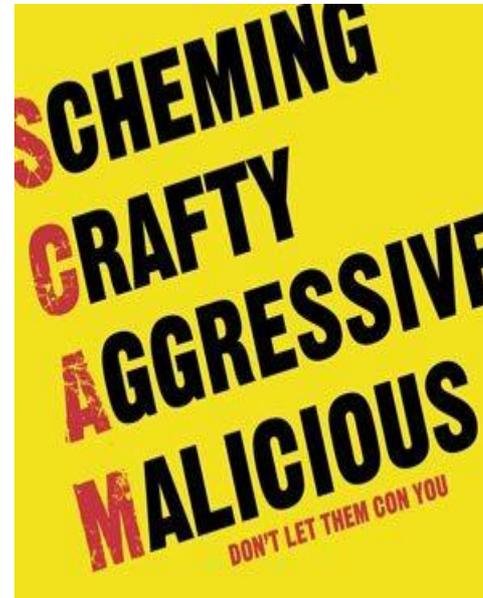
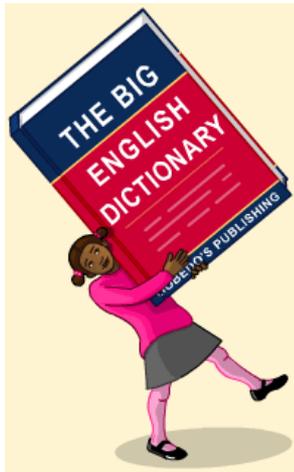
Is your CSA program at risk?

Are you aware of the potential impact fraud, waste, and abuse may have on an organization?

This session is an overview of fraud, waste, and abuse risk concepts and its applicability to Children's Services Act (CSA) programs.



# Discussion Topics



## THE DAILY NEWS

www.dailynews.com

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### Va. localities may have to repay misspent funds

Sunday - 6/5/2011, 2:41pm ET

ROANOKE, Va. (AP) - Some Virginia localities may have to repay millions in misspent state and federal funding that was intended to help troubled kids and teens.

The Roanoke Times reports that Craig County may owe the state and federal governments \$2.6 million after an April report found a lack of documentation for programs, disorganized programs and disorganized staff and work areas that "puts customers at risk of harm and the agency at liability."

The report echoes similar audits in Roanoke, Richmond and Pittsylvania County that documented misspent funds as a result of poor paperwork, confusion over process and a general lack of protocol as to how to administer the state and federal money.



# REPORT TO THE NATIONS

2018 GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE



## KEY FINDINGS

**2,690**

real cases of  
occupational fraud

from

**125** countries

in

**23** industry  
categories

**\$7 BILLION+**  
IN TOTAL LOSSES

**\$130,000**  
MEDIAN LOSS PER CASE

**22%**  
OF CASES CAUSED  
LOSSES OF  
**\$1 MILLION+**



Median duration  
of a fraud scheme



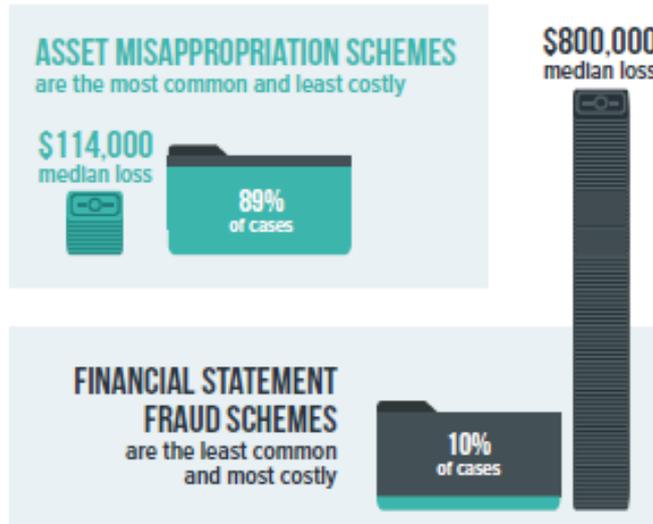
**16**

MONTHS

**CORRUPTION**

was the most common scheme  
in every global region

# Fraud, Waste, and Abuse Risk & CSA

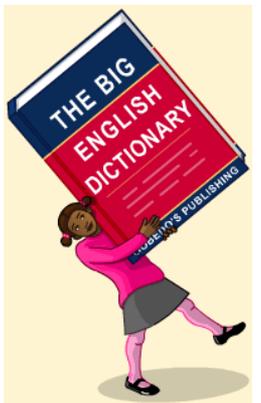


**TIPS** are by far the most common initial detection method



# FRAUD TERMINOLOGY





“**FRAUD** is any intentional act or omission designed to deceive others resulting in the victim suffering loss and/or the perpetrator achieving gain.” — as defined by IIA, AICPA, and ACFE

## EXAMPLES

False representation of facts (whether by words or conduct)

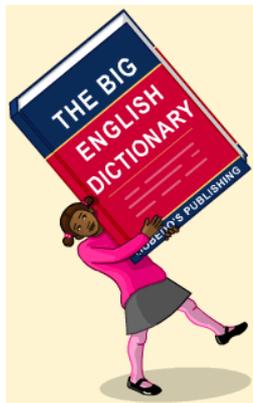
Making false or misleading statements

Concealment of something that should have been disclosed

which

***DECEIVES AND INTENDS TO DECEIVE***

# Fraud, Waste, and Abuse Risk & CSA



“**WASTE** is defined as thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of resources.”

Source: Office of the State Inspector General, Newsletter, January 2016



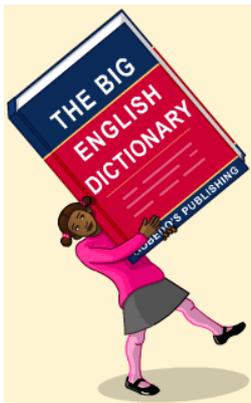


## EXAMPLE

Failure to submit pool  
fund reimbursements  
timely

=

LOCAL ONLY  
FUNDING



“**ABUSE** is excessive or improper use of a resource, or to use a resource in a manner contrary to the natural or legal purpose.”

Source: Office of the State Inspector General, Newsletter, January 2016



## EXAMPLES

**Personal use of government-owned resources, supplies or equipment**

**Conducting personal business during work hours**

**Accessing information without a legitimate business need**

# Fraud, Waste, and Abuse Risk & CSA



# Fraud, Waste, and Abuse Risk & CSA

By FRANK GREEN Richmond Times-Dispatch Jul 27, 2017

According to authorities, Taylor had an agreement with the Virginia Department of Medical Assistance Services to provide therapeutic day treatment services to at-risk youths to be paid for by Medicaid, a health care program for the poor and disabled that is funded by the state and federal governments.

Taylor “and others” submitted and caused to be submitted false claims to Medicaid for services that were never provided, according to the charges. The false billings were submitted to a Medicaid fiscal intermediary in Henrico County.

# Fraud, Waste, and Abuse Risk & CSA

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A former D.C. employee pleaded guilty to a bribery charge in federal court Thursday, admitting that he accepted cash kickbacks and sexual favors from welfare recipients in exchange for nearly \$1.5 million in fraudulent assistance payments.

Demetrius McMillan, 48, worked 13 years at the D.C. Department of Human Services (DHS), city officials said. However, the criminal conduct for which he was charged took place only last year, according to court documents.

# Fraud, Waste, and Abuse Risk & CSA

Despite claims to the contrary, officials with Richmond Public Schools did not install many of the 500 new computers that were found sitting in the system's warehouse in March, according to a follow-up review by the city auditor.

Acting on a tip, investigators found 211 of the 500 computers still in the warehouse on Oct. 8, City Auditor Umesh V. Dalal said in an Oct. 22 letter to Superintendent Yvonne W. Brandon. Nearly all of the computers were purchased in 2009, and they now have limited value given their age and technological limitations, he said.

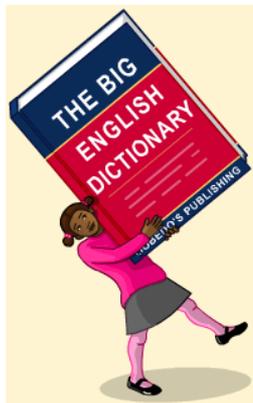
## THE DAILY NEWS **PilotOnline.com**

### Fraud, nepotism allegations at Beach children's center

By Gabriella Souza  
The Virginian-Pilot  
© January 30, 2015

VIRGINIA BEACH

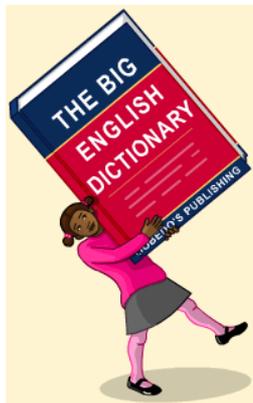




## OTHER COMMON TERMS

**Bribery – The offering, giving, receiving, or soliciting of any item of value to influence the action of an official or other person in charge of a public or legal duty**

**Collusion – An agreement between two or more people to participate in inappropriate/illegal activity for profit/gain**

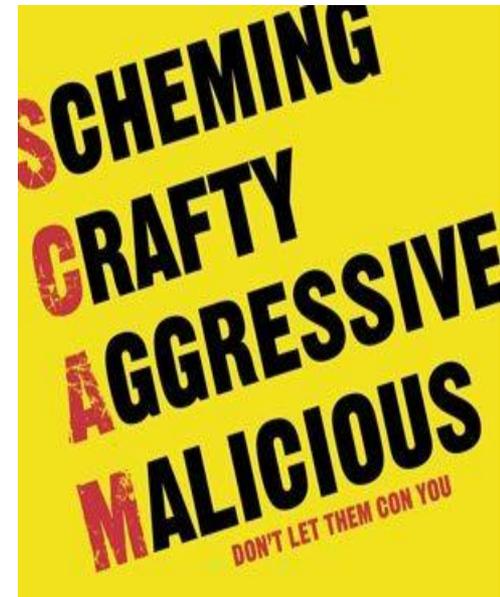


## OTHER COMMON TERMS

**Corruption – Involves the abuse of a person's power or position to acquire personal benefit for themselves or someone else**

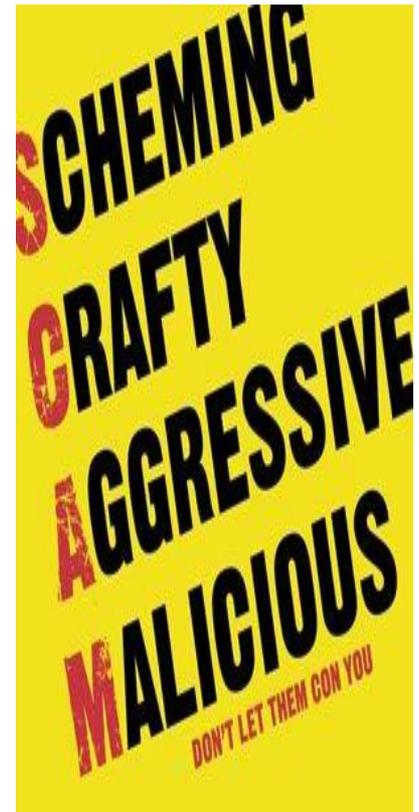
**Embezzlement – Steal or misappropriate funds entrusted to one's care.**

# CATEGORIES OF FRAUD



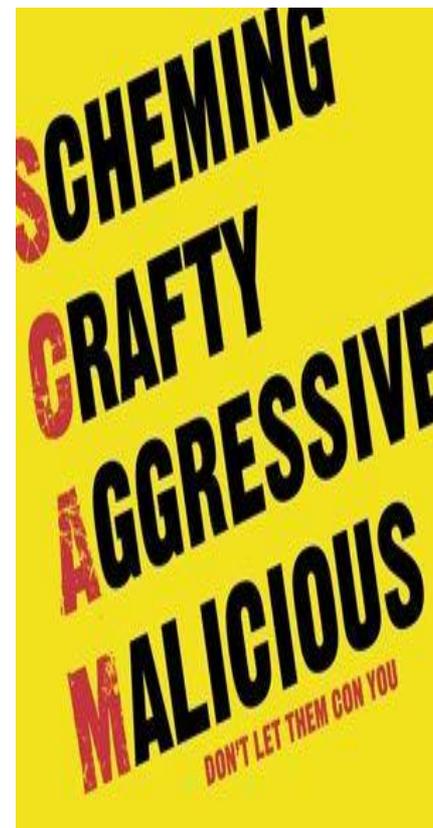
## FINANCIAL AND MANAGEMENT REPORTING

Occurs when an organization's reports are intentionally prepared with omissions or misstatements



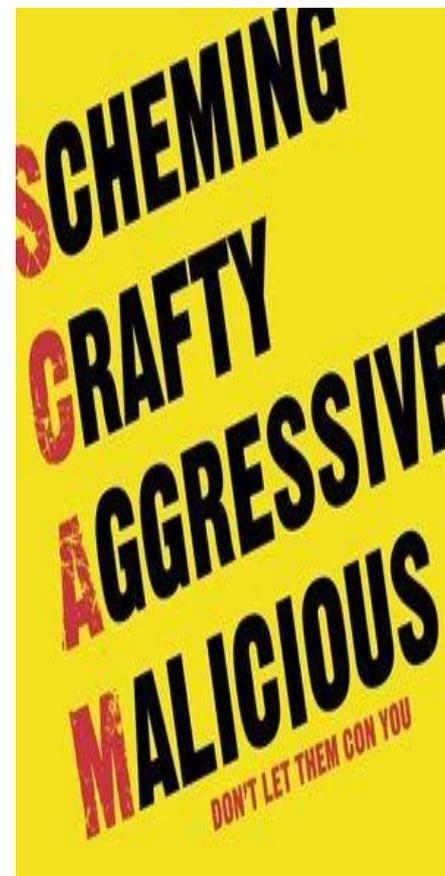
## MISAPPROPRIATION OF ASSETS

Unauthorized, inappropriate and intentional acquisition, use, or disposal of the organization's assets

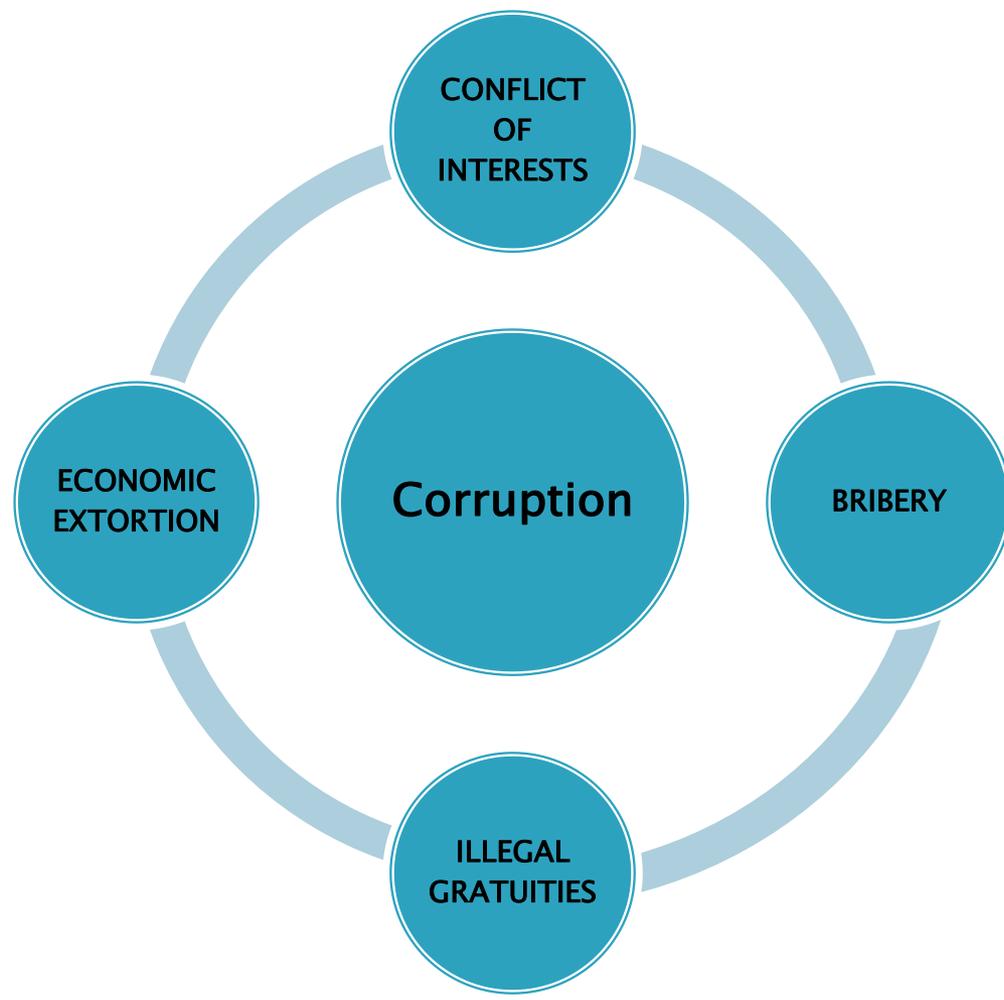


## CORRUPTION

Abuse of power or position to acquire personal benefit for themselves or someone else.

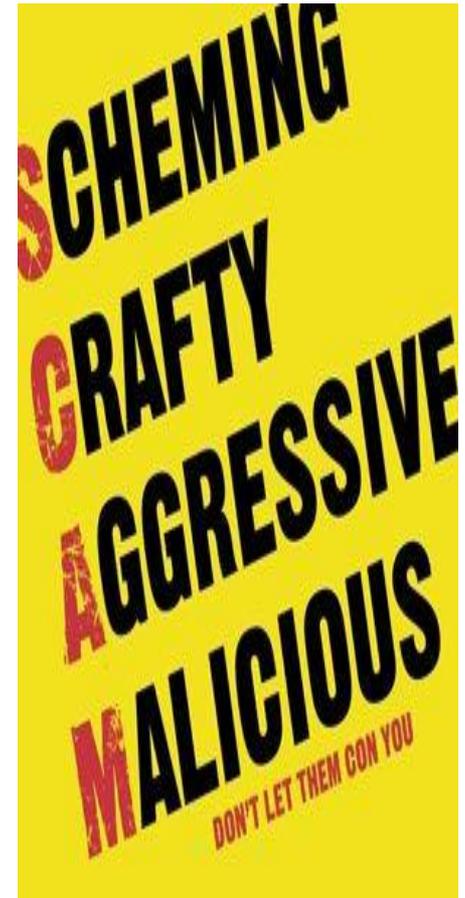


# Fraud, Waste, and Abuse Risk & CSA



## MANAGEMENT OVERRIDE

Actions in which internal controls are intentionally overridden for an illegitimate purpose.



# Fraud, Waste, and Abuse Risk & CSA



## Woman pleads guilty to Medicaid fraud totaling almost \$31,000

Nancy Drury Duncan, Special to Salisbury Daily Times Published 12:06 p.m. ET March 4, 2019

A woman who submitted false time sheets to Medicaid for work she did not perform pleaded guilty to fraud and other charges in Northampton County court.

Pauline Bailey, 57, of Machipongo, who was in court Feb. 25 to face six felony charges, pleaded guilty to Medicaid fraud, conspiracy to make false statements to obtain money and obtaining money by false pretenses.

Under a plea agreement, the commonwealth dropped three of the six charges related to the offenses dating to 2014.

According to court testimony, Bailey submitted fraudulent time sheets in the amount of \$30,959.08 for work that was never performed over the course of two years.

## Ex-DMV employee indicted on 39 counts for allegedly accepting bribes to issue 13 forged commercial licenses in Prince George

By MARK BOWES Richmond Times-Dispatch Oct 9, 2018



A former Virginia Department of Motor Vehicles employee has been indicted on charges of accepting bribes to issue phony commercial licenses to 13 drivers in Prince George County and forging applications for those licenses over a five-month period ending in March.

# Fraud, Waste, and Abuse Risk & CSA

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## Audit: Pittsylvania County owes Virginia \$7.7 million

Story Comments

Print  Font Size:  

Posted: Friday, December 3, 2010 8:08 pm

**John Crane**

A report from Virginia's Auditor of Public Accounts says Pittsylvania County could owe the state \$7.7 million reimbursement for students and services that were not eligible for funding under Virginia's Comprehensive Services Act for At-Risk Youth and Families program.

Also, the November report found that Pittsylvania County Schools and the county's Social Services Department spent \$14.5 million and \$165,000, respectively, for service providers without written agreements with their providers.



## WHY DO PEOPLE COMMIT FRAUD?



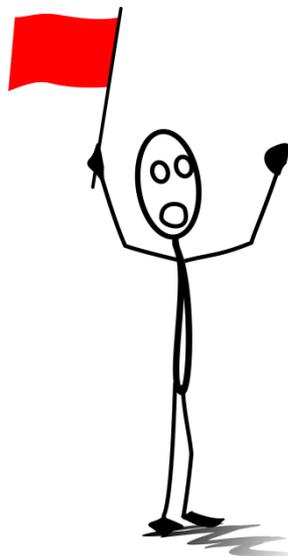
“Regardless of culture, ethnicity, religion, or other factors, certain individuals will be motivated to commit fraud and the primary reasons why fraud occurs are “pressures to do ‘whatever it takes’ to meet goals (81% of respondents) and to seek personal gain (72% of respondents).” Additionally, many respondents indicated that “they do not consider their actions fraudulent (40%) as a reason for wrongful behavior.”

Source: The 2007 Oversight Systems Report on Corporate Fraud

[www.oversightsystems.com](http://www.oversightsystems.com)

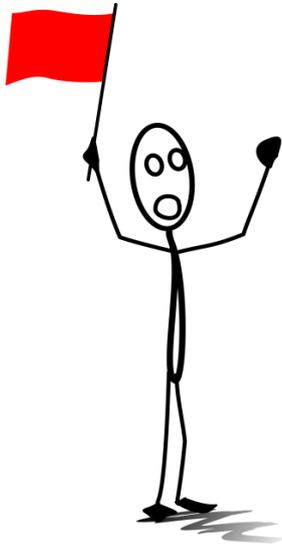
## COMMON CHARACTERISTICS OF FRAUD

### RED FLAGS



## PRESSURE OR INCENTIVE

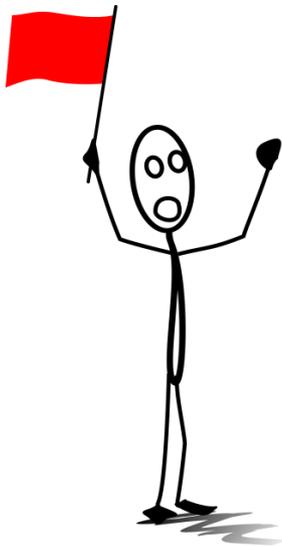
Need the perpetrator is trying to satisfy by committing fraud:



- Severe pressure from boss to reach goals or recover from high risk losses
- Financial pressure (at home or work)
- Illness/addiction

## OPPORTUNITY

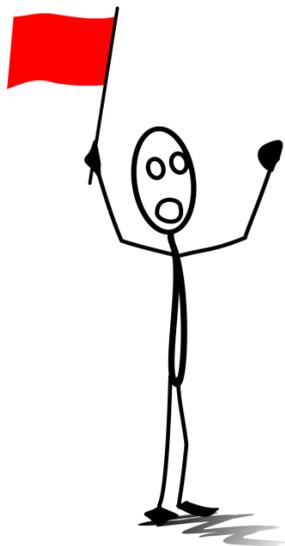
The ability to commit the fraud.



- ❑ May be due to weak internal controls, lack of segregation of duties, inappropriate IT access
- ❑ May start small or accidentally; when not caught, expand the scheme (e.g. office supplies, reimbursed expenses)

## RATIONALIZATION

The “story” the fraudster tells to justify the fraud in their mind.



- The more that they feel detached, the more likely they are to rationalize
- Overlooked for promotion or raise (I deserve it)
- Feeling unappreciated
- They won't notice, it's not hurting anyone
- Use of nicknames (“greasing the wheels” rather than bribery) helps with rationalization

# Fraud, Waste, and Abuse Risk & CSA

Department of Justice

U.S. Attorney's Office

Eastern District of Virginia

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FOR IMMEDIATE RELEASE

Tuesday, February 27, 2018

## Man Pleads Guilty to \$480K Youth Counseling Scam

RICHMOND, Va. – A Georgia man pleaded guilty today to defrauding the City of Hopewell of approximately \$480,000 and evading his personal income taxes.

According to court documents, Keith Hayes, 46, of Decatur, formed a business he named “A World of Possibilities” (WOP) in October of 2011, for the ostensible purpose of providing mentoring and counseling services to at-risk students at public schools in the City of Hopewell. At the time that Hayes created WOP, Hayes had a close personal relationship with a person identified in court documents as Co-Conspirator One, who was employed as the City of Hopewell’s Comprehensive Services Act (CSA) Coordinator. In that capacity, Co-Conspirator One was responsible for directing CSA-funded counseling contracts to service providers, and began appointing WOP as the approved service provider for a number of at-risk students in Hopewell City Public Schools. Under those contracts, Hayes was supposed to provide mentoring and counseling services to those at-risk students. However, despite the fact that WOP did not employ any counselors and never provided any services to any Hopewell student, WOP billed the City of Hopewell for \$480,875 worth of counseling services between November 2011 and June 2015.



# FRAUD RISK MANAGEMENT ACTIVITIES





**Every organization is susceptible to fraud, but not all fraud can be prevented, nor is it cost effective to try.**

## 7 Keys to Fraud Prevention



## TECHNIQUES FOR ASSESSING FRAUD RISK

- ❑ Interviews and brainstorming with people from all areas within organization (i.e. CSA Program)
- ❑ Consider whistleblower and stakeholder complaints (i.e. CSA due process complaints / Feedback surveys)
- ❑ Include assessment of incentives, pressures, and opportunities to commit fraud (i.e. reduce CSA costs)
- ❑ Consider the potential override of controls by management (i.e. lack of segregation of duties).



## FRAUD RISK MANAGEMENT RESPONSE – CPMT



- ❑ Responsible for developing and executing mitigating controls to address fraud risks
- ❑ Consider both the fraud scheme and the individuals within and outside the organization (i.e. CSA Program) who could be the perpetrators of each scheme
- ❑ Decide what the response should be and perform a cost/benefit analysis of implementing controls or specific fraud detection procedures

# Fraud, Waste, and Abuse Risk & CSA

## Management of Risk of Fraud in Government A Good Practices Guide



## GOOD PRACTICES GUIDE

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The Good Practices have been grouped under the following four broad headings:

- A. Deterring Fraud;*
- B. Preventing Fraud that could not be deterred;*
- C. Detecting Fraud that could not be prevented; and*
- D. Investigating and dealing with frauds detected.*

## Good Practices Guide – Deterring Fraud

- Assess the organization's vulnerability to fraud, identify and earmark those areas that are most vulnerable to risk of fraud
- Create an anti-fraud culture through publicity campaigns; Create awareness about fraud risk among employees
- Issue a Fraud Risk Control Policy; Assign ownership and responsibility for overall management of anti-fraud activities
- Develop a Fraud Response Plan

## Good Practices Guide – Fraud Prevention

- Prevent fraud through effective internal controls
- Prevent staff (insider) fraud by proper vetting and security screening of employees
- Prevent fraud in relation to identity information, data, and documents
- Assess the inherent risks of the new schemes/ programs and fraud proof the schemes/ programs

## Good Practices Guide – Fraud Detection

- Set up and encourage the use of hotlines to detect fraud
- Identify and act upon Red Flags (Fraud Indicators)
- Use statistical and IT tools in the detection of fraud
- Institute an effective internal audit system

## Good Practices Guide: Investigating and Dealing with Fraud

- Equip the organization with the right skills to undertake professional investigation of the fraud that has been detected
- Respond effectively to fraud when it occurs
- Enforce effective sanctions, including appropriate legal action against people committing fraud
- Monitor and evaluate the effectiveness of sanctions continuously
- Adopt effective methods for seeking redress in respect of money defrauded

# Fraud, Waste, and Abuse Risk & CSA

## Fraud Risk Management Activities

Sources:

- Committee on Sponsoring Organizations (COSO) Framework, Principal 8
- Fraud Risk Assessment, Fowler & Company, LTD

COSO Component	Fraud Risk Management Activities
<b>Control Environment</b>	<ul style="list-style-type: none"> <li>• Establishing appropriate “tone at the top” and organizational culture.</li> <li>• Documenting fraud control strategy, code of ethics/conduct, and hiring and promotion standards.</li> <li>• Establishing, complementing, or evaluating internal audit functions.</li> <li>• Developing curriculum; designing and providing training.</li> <li>• Developing a policy and methodology to investigate potential occurrences of fraud.</li> <li>• Investigating allegations or suspicions of fraud.</li> <li>• Promoting controls to prevent, deter, and detect fraud.</li> <li>• Implementing and maintaining a fraud and ethics hotline and whistleblower program.</li> </ul>
<b>Fraud Risk Assessment</b>	<ul style="list-style-type: none"> <li>• Establishing a fraud risk assessment process that considers fraud risk factors and fraud schemes.</li> <li>• Involving appropriate personnel in the fraud risk assessment process.</li> <li>• Performing fraud risk assessments on a regular basis.</li> </ul>
<b>Anti-fraud Control Activities</b>	<ul style="list-style-type: none"> <li>• Defining and documenting mitigating controls and linking them to identified fraud risks.</li> <li>• Modifying existing controls, designing and implementing new preventive and detective controls as necessary, and implementing supporting technologies.</li> </ul>
<b>Information and Communication</b>	<ul style="list-style-type: none"> <li>• Promoting the importance of the fraud risk management program and the organization’s position on fraud risk both internally and externally through corporate communications programs.</li> <li>• Designing and delivering fraud awareness training.</li> </ul>
<b>Monitor</b>	<ul style="list-style-type: none"> <li>• Providing periodic evaluation of anti-fraud controls.</li> <li>• Using independent evaluations of the fraud risk management program by internal auditing or other groups.</li> <li>• Implementing technology to aid in continuous monitoring and detection activities.</li> </ul>

## GROUP EXERCISE



# Fraud, Waste, and Abuse Risk & CSA

## GROUP EXERCISE – CASE STUDY

- ❑ The case described is an example of \_\_\_\_\_. Select all that may apply. Explain your answer.
  - Fraud
  - Waste
  - Abuse
  
- ❑ What category of fraud, waste or abuse applies in this scenario? Explain your answer.
  - Financial and Management Reporting
  - Misappropriation of Assets
  - Corruption
  - Management override
  
- ❑ What are the red flags, if any?
  - Pressure/Incentive
  - Opportunity
  - Rationalization
  
- ❑ What are some fraud prevention techniques that could be implemented to reduce the fraud risks in the CSA program?

## WHAT WE COVERED TODAY

- FRAUD DEFINITION AND TERMINOLOGY
- CATEGORIES OF FRAUD
- FRAUD INDICATORS/RED FLAGS
- FRAUD RISK MANAGEMENT ACTIVITIES



# Fraud, Waste, and Abuse Risk & CSA





Empowering communities to serve youth

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