Ethics – Recognizing Fraud and Avoiding Offers You Can’t Refuse

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Ireyan and Teresa

Met at National Procurement Institute Conference in Las Vegas in October 2019.

Teresa attended Ireyan’s presentation and discovered they had a common saying.

We agreed we should collaborate so here we are to tell you:

It’s a Really Good Day when nobody goes to jail! We are going to share stories of a couple of folks we know who did go to jail and talk about what we can all learn from the mistakes made as individuals and agencies.
Today’s Session Plan

• Background and Definitions
• True Case Reviews – What was Missed?
• Common Anti Fraud Controls and Ethical Principles
• How to Enhance Transparency
• Fostering Preventive Culture
• Ethics Checklist
Dictionary

Search for a word

eth·ics
/ˈeθɪks/

noun
plural noun: ethics; noun: ethics

1. moral principles that govern a person’s behavior or the conducting of an activity.
   “medical ethics also enter into the question”
   Similar: moral code, morals, morality, moral stand, moral principles
   • the moral correctness of specified conduct.
   “many scientists question the ethics of cruel experiments”

2. the branch of knowledge that deals with moral principles.

eth·ic
/ˈeθɪk/

noun
plural noun: ethics

a set of moral principles, especially ones relating to or affirming a specified group, field, or form of conduct.
“the puritan ethic was being replaced by the hedonist ethic”
How does this apply to Public Procurement Officials?

• Public Trust
• Integrity
Ethical Principles include:

Honesty  Integrity
Promise-Keeping & Trustworthiness  Loyalty
Fairness  Concern for Others
Respect for Others  Law Abiding
Commitment to Excellence  Leadership
Reputation and Morale  Accountability
Association of Certified Fraud Examiners (ACFE) 2018 Report – Bad News

• 2,690 Cases Reported with over 7 Billion Dollars in Losses; Median Loss $130,000 with 22% at over 1 Million Lost.

• Referral to Prosecution has declined 16% Over the last 10 years. The main reason is fear of publicity.

• Fraudsters who had been with their company longer - 5+ years, stole twice as much!

• A Majority of the victims recovered NOTHING.
ACFE 2018 Report – Good News

• 85% of Fraudsters display at least one red flag. 50% display more than one.

• Anti-Fraud Controls are Associated with Lower Losses and Quicker Detection.

• Tips, Internal Audit, and Management Review are the top three methods of detection.

• YOU – using this information and these tools will not be in the news … or in jail!
Most Common Red Flags

- Living Beyond Their Means
- Financial Difficulties
- Unusually Close Association with Vendor or Customer
- Control issues – Unwillingness to share duties or information
- Divorce, family problems
- “Wheeler Dealer” attitude
Fraud Triangle – Opportunity

The Fraud Triangle

Opportunity

Rationalization

Pressure
Do you recognize this man?
Maybe this will help:

Insert Short Video
Case: The Former Mayor of the City of New Orleans (2 Terms: 2002 – 2010)

Administration Highlights*

First Term

• The 2004 Comprehensive Annual Financial Report of the City of New Orleans, as certified by CPA firm KPMG, highlighted many significant accomplishments of the Nagin administration. New Orleans gained 4,500 jobs that year. U.S. Census Bureau figures showed about 38,000 New Orleanians had risen out of poverty as the national average increased. According to The American City Business Journal, per capita income in New Orleans was rising at the fastest rate in the nation.

• Southern Business and Development named New Orleans number eight on the list of "comeback kids" in the south. New Orleans had back-to-back record tourist years, 10.1 million in 2004. A Yahoo/National Geographic Traveler poll named the city its number one family destination. Since 2002, the area had seen over $400 million of film productions, including movies like the Oscar award-winning Ray, starring Jamie Foxx, and All the King's Men, featuring Sean Penn. According to MovieMaker Magazine, New Orleans was the fourth-best place to film a movie and had earned the title "Hollywood South".

• In November 2004, the Nagin administration passed the city's largest bond issue, $260 million. New Orleans also jumped from 69th to 38th on Intel's list of "Most Wired Cities". The city's website went from being unranked to the 4th best in the nation.

Second Term

• During the end of 2007 and into 2008 Nagin guided the city through an extensive planning process that documented a $14 billion need. However, the state only allocated 2% of the plan and it took almost three years to receive any of these federal recovery dollars.

• By years 4 and 5, New Orleans made significant progress toward recovery. 85% of all city managed recovery projects were either recently completed, under construction, or in final design. By the end of 2009, there were over $20 billion in public & private sector construction related projects underway.

• Business Week said New Orleans was one of the best cities in America to ride out the great recession,[61] Money Magazine ranked the city as the sixth-fastest-growing real estate market. Outside Magazine said New Orleans was the 20th best town in American to live in. The U.S. Department of Labor in its April 2010 report said New Orleans had the lowest unemployment in the nation.

• Prior to leaving office in 2010, Nagin was appointed by Secretary of State Hillary Clinton to head the United States delegation to a state and local governments conference on assistance to post-earthquake Haiti held in Martinique. A recovery plan was completed and presented to donor nations resulting in Haiti receiving billions in pledges.

https://protect-us.mimecast.com/s/xlVNC1wD6GiE0qYfL2_tG?domain=youtu.be
According to the Federal Government

THE CHARGES:

On January 18, 2013, Nagin was indicted on 21 corruption charges, including wire fraud, conspiracy, bribery, money laundering, and filing false tax returns related to bribes from city contractors. The 21-count federal corruption charges were issued by a grand jury. On February 20, 2013, Nagin pleaded not guilty in federal court to all charges. Nagin was convicted on 20 of the 21 counts by jury on February 12, 2014.
THE FACTS

Convicted on: **February 12, 2014**

Sentenced on: **July 9, 2014**

Reported to Prison on: **September 8, 2014**

Anticipated Release Date: **March 16, 2023**

(Compassionate COVID-19 release to house arrest: **April 27, 2020**)

NIGP FORUM 2020
One Red Flag:

A singular conversation in 2009 or 2010:

**Me:** Sir, we are waiting on your insurance documents. We should have them in a day or so.

**Contractor:** Ray said I was good.

**Me:** We should have them in a day or so.

**Contractor:** Ray said I was good!
Case: Purchasing Analyst

https://www.youtube.com/watch?v=E4c_rmEVE5U

https://www.youtube.com/watch?v=wg_dRsM1-14

Our Focus today is recognizing Fraud – so we’re looking at what was missed. And what are the ethical principles in play (or not) here.

Please join me tomorrow in “A Boss’s Nightmare” for a deeper dive into the entire 8 year story, with background, outcomes, and lots of lessons learned. Part 2 Will be about Rebuilding Confidence and Leading through Crisis.
Audience Questions – Red Flags

Did you see any Red Flags displayed in either case?

Why do you think they went unrecognized?

Has anyone ever “Missed It” with a Red Flag situation?

We both respond to Chat and engage
Common Anti-Fraud Controls

Aligning with Ethical Principles

Pro Active Data Monitoring and Analysis *
Surprise Audits *
Code of Conduct
Management Review
Hotline
Anti-Fraud Policy
Internal Audit Department

Law Abiding
Leadership
Honesty, Morale
Accountability
Fairness, Concern for Others
Commitment to Excellence
Integrity
Common Anti-Fraud Controls

Here are additional Common Anti Fraud Controls – Think about which Ethical Principles would align with these and feel free to comment on any in the Chat.

• Fraud Training
• Formal Fraud Risk Assessments
• Employee Support Program
• Dedicated Fraud Department, function or team
• External Audit of Financial Statements
• Job Rotation
• Mandatory Vacations
Audience Question - Controls

Have you ever heard something in a conversation and thought maybe you should have pursued it but didn’t? Comment in Chat Box.

Here are some Other Internal Control Weaknesses/Opportunities in the Mayor’s Case to think about:

• Listening
• Hearing
• Questioning
• Evaluating
• Reporting
Enhance Transparency

What do you believe is the essential first step to enhancing transparency?

Respond using the comment box.
Fostering Preventive Culture

- Accountability
- Process Documentation - Consistency
- Audits - Knowing someone is asking questions is a deterrent – like seeing a police car on the highway.
- Modeling Ethical Behavior
Let’s Create Your Checklist: Five Things to Do

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THANK YOU!