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Fraud impacts us all

Highlights

- Fraud can happen within your agency, it can be committed by your (seemingly) most honest and loyal employees, and if fraud occurs, everyone in the agency will be negatively impacted.
- Fraud awareness, prevention, and detection is every state employee's responsibility.
- November 16-22, 2014 is "Fraud Awareness and Prevention Week in the State of Minnesota."

Fraud costs organizations an estimated five percent of their annual revenues, according to a study conducted by the Association of Certified Fraud Examiners (ACFE), an association of 70,000+ members dedicated to reducing the incidence of fraud worldwide. If applied to the 2013 estimated Gross World Product, five percent of revenues equates to a global fraud loss of nearly \$3.7 trillion. That is trillion with a T!

The government sector is one of the most victimized by fraud. Fraud against the State of Minnesota, and government entities across the globe, is an expensive burden on taxpaying citizens and businesses, resulting in the increased cost of governmental services, loss of public funds and resources, decreased confidence in public officials, and increased expenses associated with the investigation, prosecution, and incarceration of individuals who commit fraud.

A number of fallacies contribute to the fraud problem - myths that need to be dispelled for agencies to have the best chance of reducing their fraud risk. Employees, and particularly management personnel, must get past the notions: 1) that fraud cannot happen here; 2) that good people do not commit fraud; and, 3) that if fraud does happen here, it will not personally affect me.

Employees within every organization would like to believe that fraud only happens to others, that it cannot happen in their "house." This line of thinking only serves to increase fraud risk. For example, if employees do not believe fraud is possible, they may ignore obvious red flags or not question or report irregularities. If managers refuse to acknowledge that fraud could happen in their shop, it is unlikely they will allocate resources to assess the level of risk or ensure that anti-fraud controls are established and monitored. When it comes to fraud, hoping for the best, but planning for the worst is the appropriate mindset and strategy to take.

Most employees would never consider committing fraud. However, the fraud triangle theory suggests that anyone who has a combi-

nation of sufficient pressure, an ability to rationalize dishonest acts, and the opportunity to commit and conceal misconduct is at risk of committing fraud. Management must understand the fraud triangle theory and recognize there are situations that could cause otherwise good and honest individuals to turn to deception. While external pressures and staff consciences cannot be controlled, the opportunities to commit fraud can be reduced through the implementation of strong internal controls, including anti-fraud controls.

If fraud does happen, it will personally affect every employee within the victim organization. Lower salaries and bonuses, potential layoffs, increased scrutiny, decreased trust, and lowered productivity and morale resulting from having to clean-up the mess are some of the aftershocks the staff will suffer. Personalizing fraud will help increase employee commitment to aiding fraud prevention and detection efforts.

Suggested Action Steps: Governor Dayton has formally proclaimed the week of November 16-22, 2014, "Fraud Awareness and Prevention Week in the State of Minnesota" and the state's executive and judicial branches have announced they will participate in the ACFE International Fraud Awareness Week, observed the same week, as official supporters. This will be a week dedicated to raising state employee awareness of the fraud problem, including educating and training employees about fraud prevention, detection, and reporting techniques with an emphasis placed on the need for proactively fighting fraud in order to safeguard state assets and resources.

Share this bulletin with your staff and colleagues, and encourage them to look for opportunities to participate in fraud-week training activities (to be announced soon). Let's each do our part to prevent fraud!

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