



DEVELOPING AN ANTI-FRAUD PROGRAM ON A BUDGET AND THE CASE OF THE BAD MENTOR

Assistant Special Agent In Charge Jamila Davis | October 2023

THEFT vs. FRAUD

Detroit church robbed of donations set to be raffled during fundraiser



Volunteers at St. Hyacinth Roman Catholic Church in Detroit's Poletown neighborhood say they were robbed earlier this week.

Former Church on the Rock employee takes plea deal in \$450,000 embezzlement case



Occupational/Internal Fraud



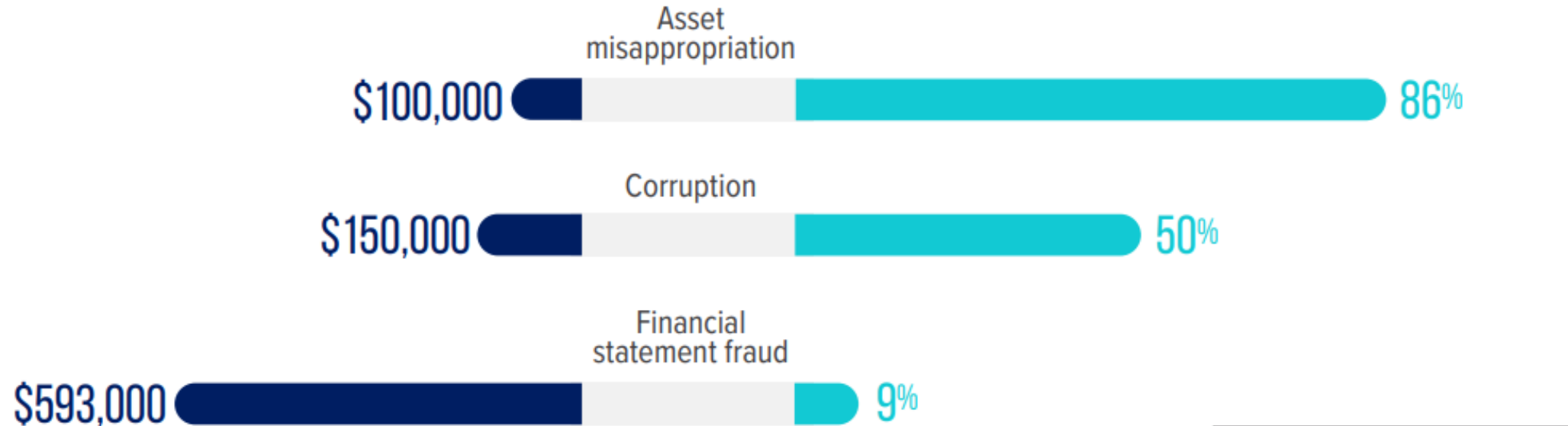
ORGANIZATIONS WITH THE
FEWEST EMPLOYEES HAD THE
HIGHEST MEDIAN LOSS
(\$150,000)

Why are small agencies susceptible to fraud?

- ☐ Focused on the mission of the agency
- ☐ Lack the resources for a dedicated QA/QC/Fraud Department
- ☐ Focused on fraud by clients/customers
- ☐ Long-term staff
- ☐ Genuine disbelieve fraud is a risk
- ☐ Unaware of anti-fraud practices

Citation: Association of Certified Fraud Examiners 2022 Report to the Nations
<https://acfe-public.s3.us-west-2.amazonaws.com/2022+Report+to+the+Nations.pdf>

Occupational/Internal Fraud



A TYPICAL FRAUD CASE

causes a loss of
\$8,300 per month
lasts **12 months**
before detection

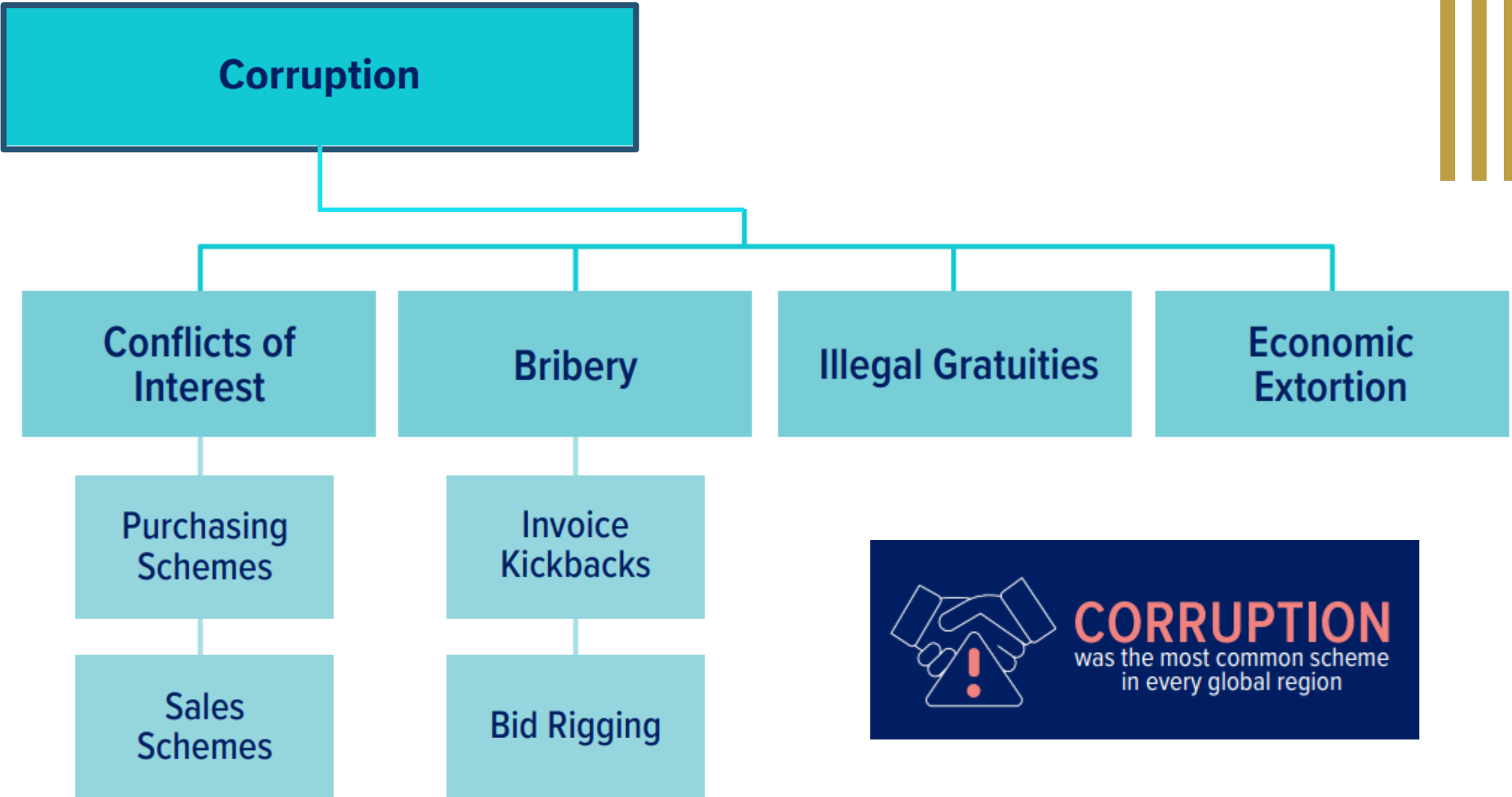
Median loss
Percent of cases

Citation: Association of Certified Fraud Examiners 2022 Report to the Nations

<https://acfe-public.s3.us-west-2.amazonaws.com/2022+Report+to+the+Nations.pdf>

Types of
Occupational
Fraud

- 1
Asset
Misappropriation
- 2
Corruption
- 3
Financial
Statement Fraud



Types of Occupational Fraud

1

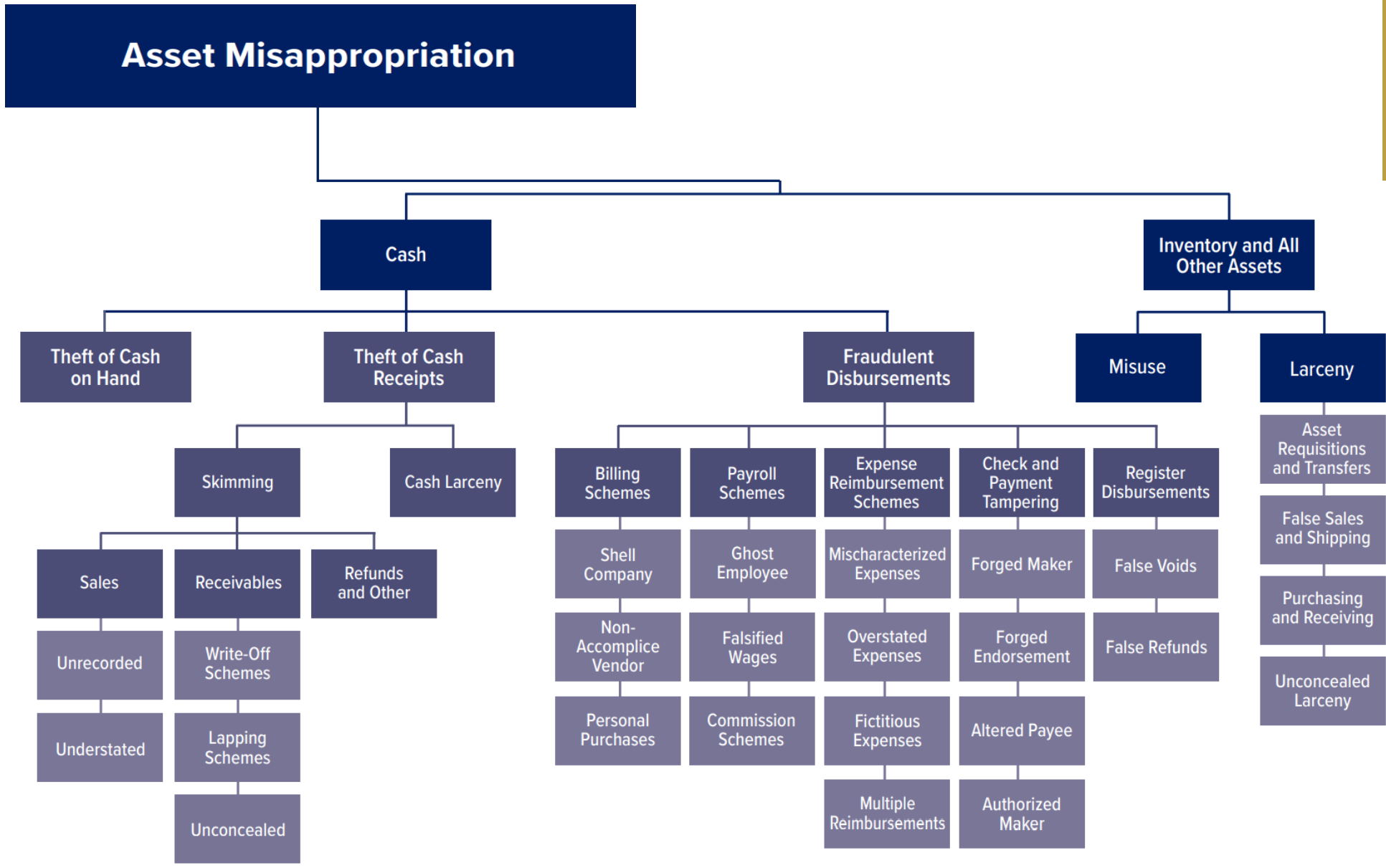
Corruption

2

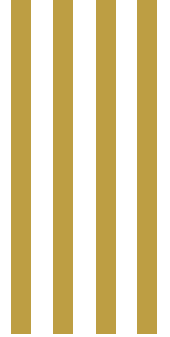
Asset Misappropriation

3

Financial Statement Fraud



Asset Misappropriation



Types of Occupational Fraud

1

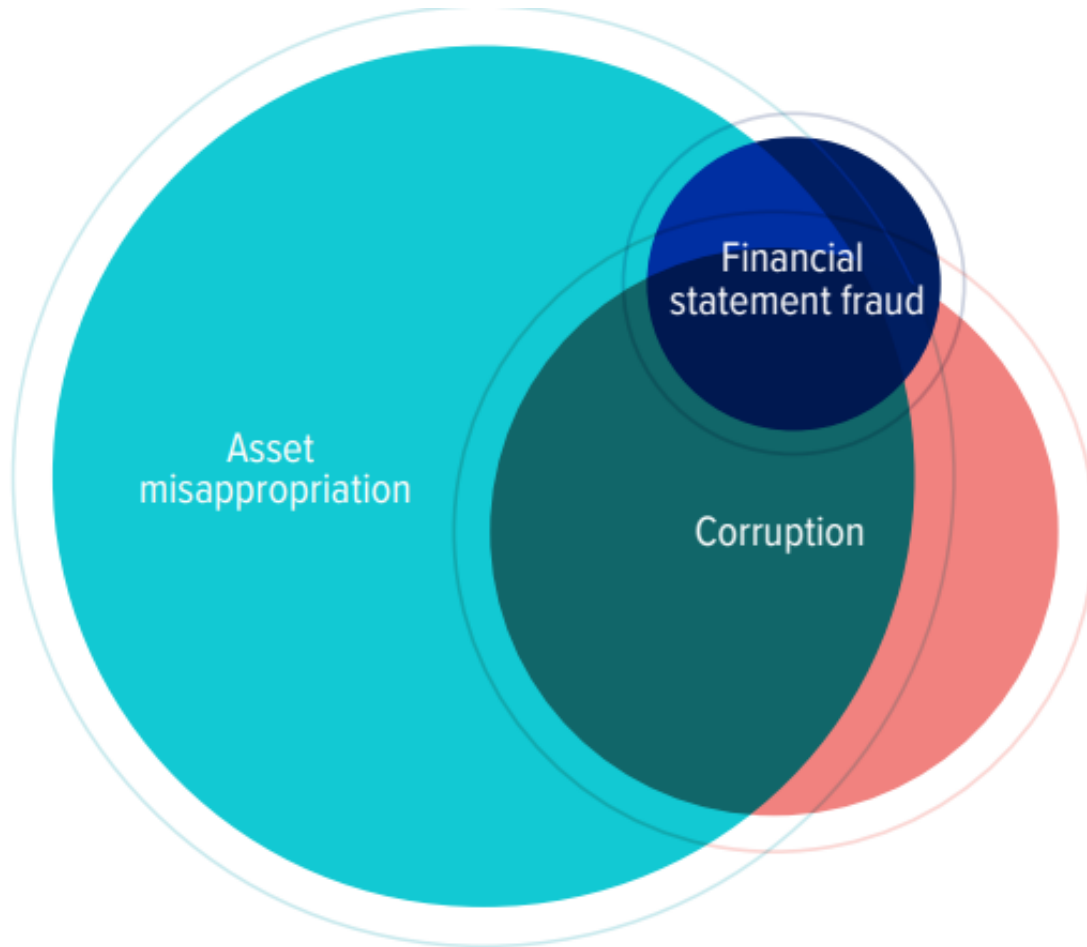
Corruption













2

Asset Misappropriation

3

Financial Statement Fraud



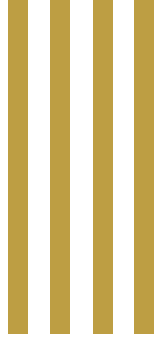
Asset misappropriation only		47%
Asset misappropriation and corruption	 	32%
Corruption only		12%
Corruption, asset misappropriation, and financial statement fraud	  	5%
Asset misappropriation and financial statement fraud	 	2%
Financial statement fraud only		1%
Corruption and financial statement fraud	 	1%

Citation: Association of Certified Fraud Examiners 2022 Report to the Nations

<https://acfe-public.s3.us-west-2.amazonaws.com/2022+Report+to+the+Nations.pdf>



THE CASE OF The BAD MENTOR



The Fraud Triangle



THE CASE OF

The BAD MENTOR

- New Housing Client
 - Error
 - Corrected the Mistake
-
- Vendor File
 - 999-99-999
 - Returned/Unprocessed 1099s

EX-HOUSING WORKERS INDICTED

Case 8:07-cr-00499-EAK-TGW Document 1 Filed 12/04/07 Page 1 of 19 PageID 1

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA

UNITED STATES OF AMERICA

v.

CALVIN COLEMAN,
KOUNGNUM BROWN,
KINTA STARLING,
WILLIAM REEVES,
MARY BARKER,
JOSE OLIVER, and
ADRIAN MOSLEY

Case 8:07-cr-00501-SDM-TBM Document 8 Filed 12/04/07 Page 1 of 19 PageID 1

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

UNITED STATES OF AMERICA

v.

MARIO LOVETT

CASE NO. 8:07-cr-00501-SDM-TBM

SUPERSEDING INFORMATION

The United States Attorney charges:

COUNT ONE

Case 8:07-cr-00498-SCB-MAP Document 1 Filed 12/04/07 Page 1 of 18 PageID 1

SEALED

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

UNITED STATES OF AMERICA

v.

CARLTON MILES,
JONATHAN DENSON,
JEFFERY LARKINS,
JOENATHAN HAILE, and
BRIAN MONTGOMERY

CASE NO. 8:07-cr-498-TAMAP

18 U.S.C. § 371
18 U.S.C. § 641
18 U.S.C. § 666

Forfeiture:

18 U.S.C. § 981(a)(1)(C)
28 U.S.C. § 2461(c)

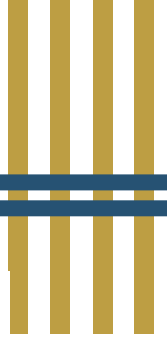
INDICTMENT

The Grand Jury charges:

COUNT ONE

THE CASE OF

The BAD MENTOR



➤ Landlord Liaison



➤ Long Term Experienced Employee

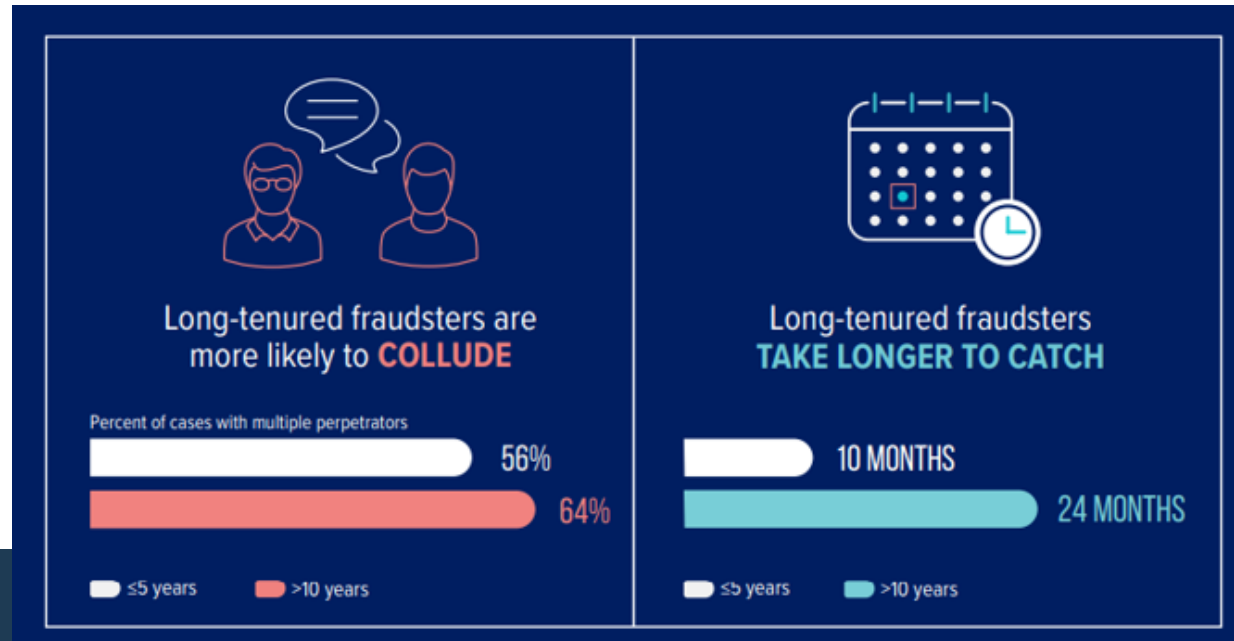
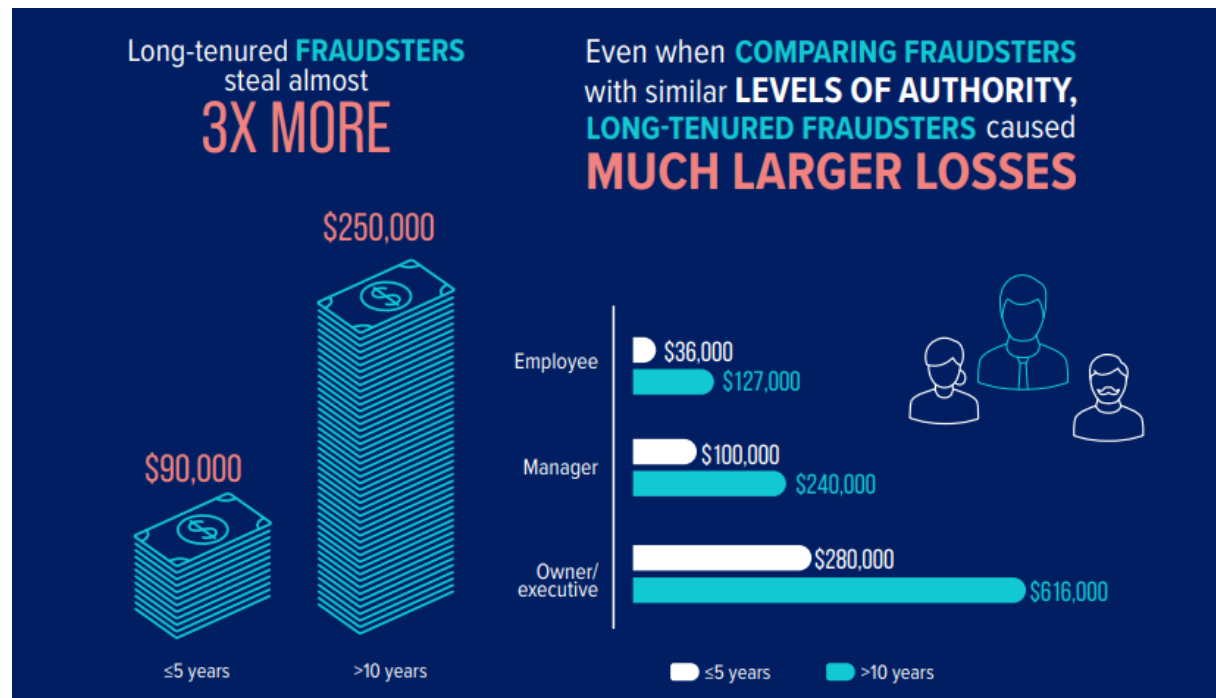


➤ 1 Year Employee



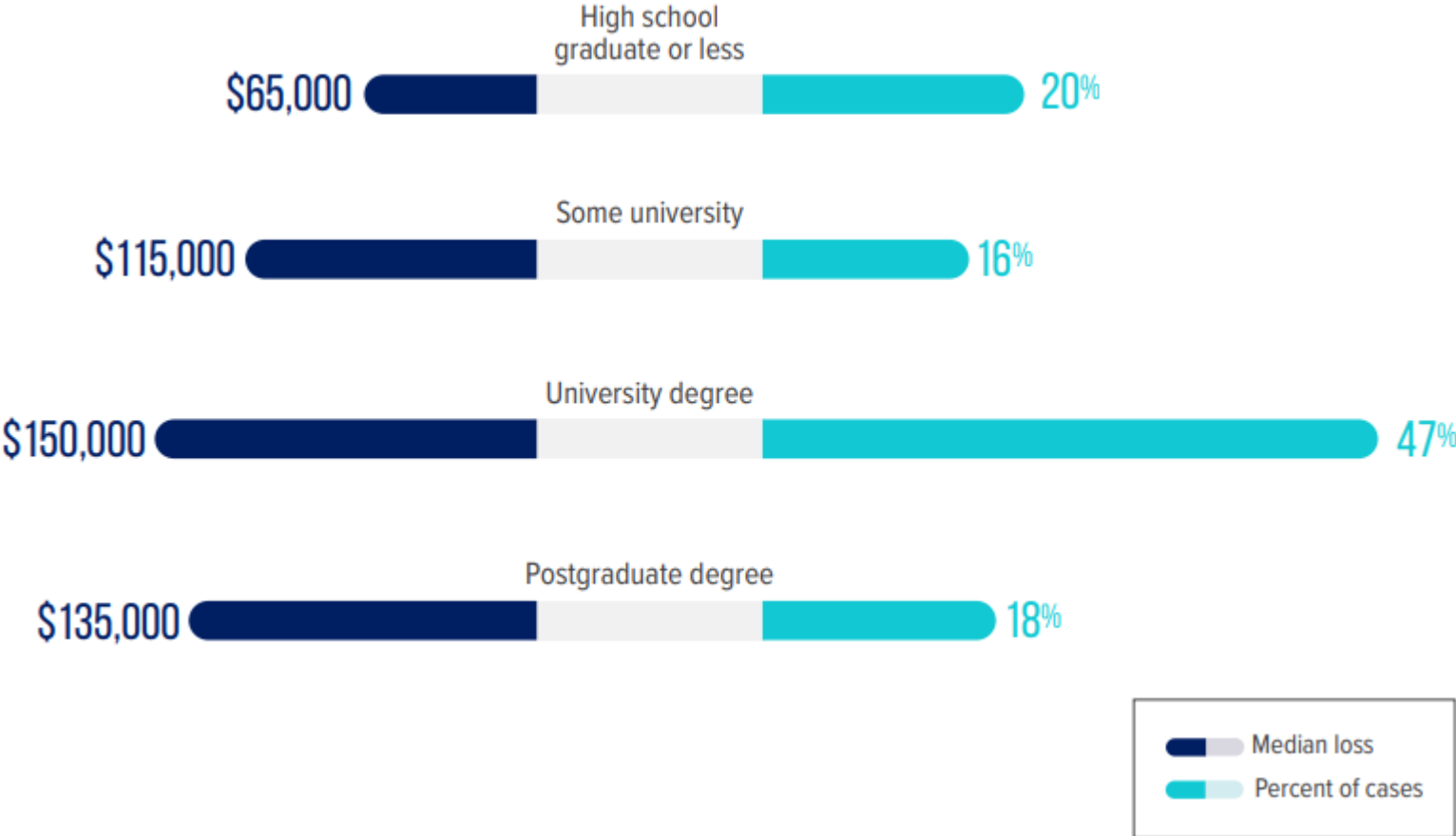
➤ 3 Year Employee

The ability to commit fraud is a skill, and our data suggests that the longer a person works for a company, the better they become at fraud.



Perpetrator
Education
Level

65% of Fraud
Perpetrators
had a
Bachelor's
Degree or
higher

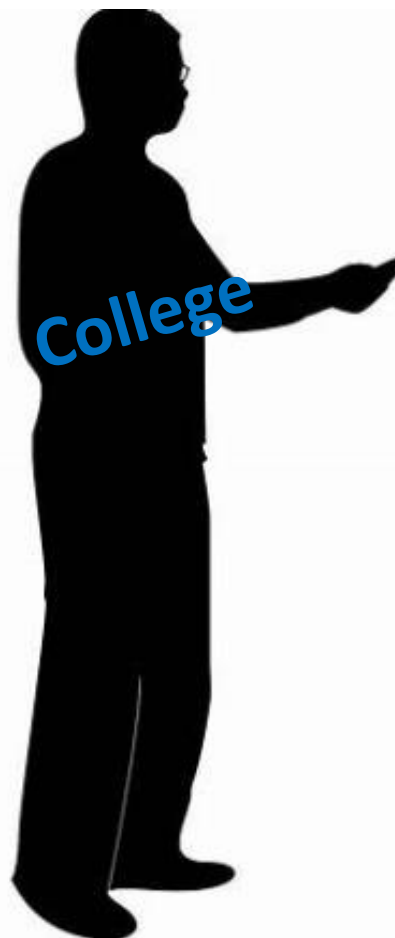


THE CASE OF

The BAD MENTOR



➤ Landlord Liaison



➤ Long Term Experienced Employee



➤ 1 Year Employee



➤ 3 Year Employee

Behavioral Red Flags

Nearly 40% of Fraudsters were found to be living beyond their means

BEHAVIORAL RED FLAGS OF FRAUD

Recognizing the behavioral clues displayed by fraudsters can help organizations more effectively detect fraud and minimize their losses.

8 KEY WARNING SIGNS

85%

OF ALL FRAUDSTERS displayed at least one **BEHAVIORAL RED FLAG**

These are the 8 most common behavioral clues of occupational fraud. **At least one of these red flags** was observed in 76% of all cases.



39%

Living beyond means



25%

Financial difficulties



20%

Unusually close association with vendor/customer



13%

Control issues, unwillingness to share duties



12%

Irritability, suspiciousness, or defensiveness



12%

Bullying or intimidation



11%

Divorce/family problems



10%

"Wheeler-dealer" attitude

THE CASE OF

The BAD MENTOR



➤ Landlord Liaison



**Cruise
Leave Without Pay**

➤ Long Term Experienced
Employee



➤ 1 Year Employee



**2 New Cars
Child In Private School**

➤ 3 Year Employee

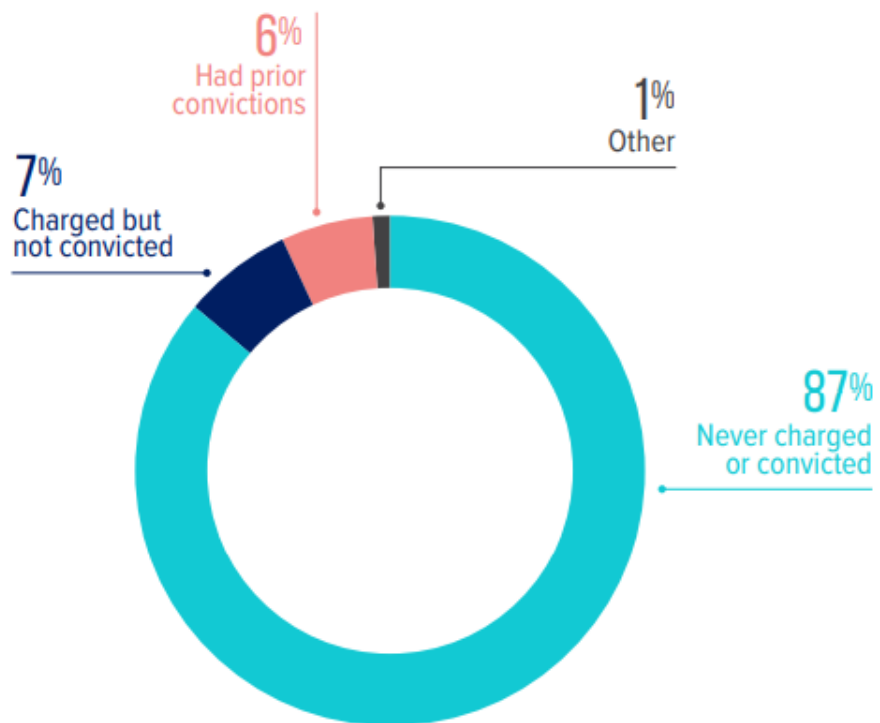
THE CASE OF The BAD MENTOR

What Does Control Look Like?

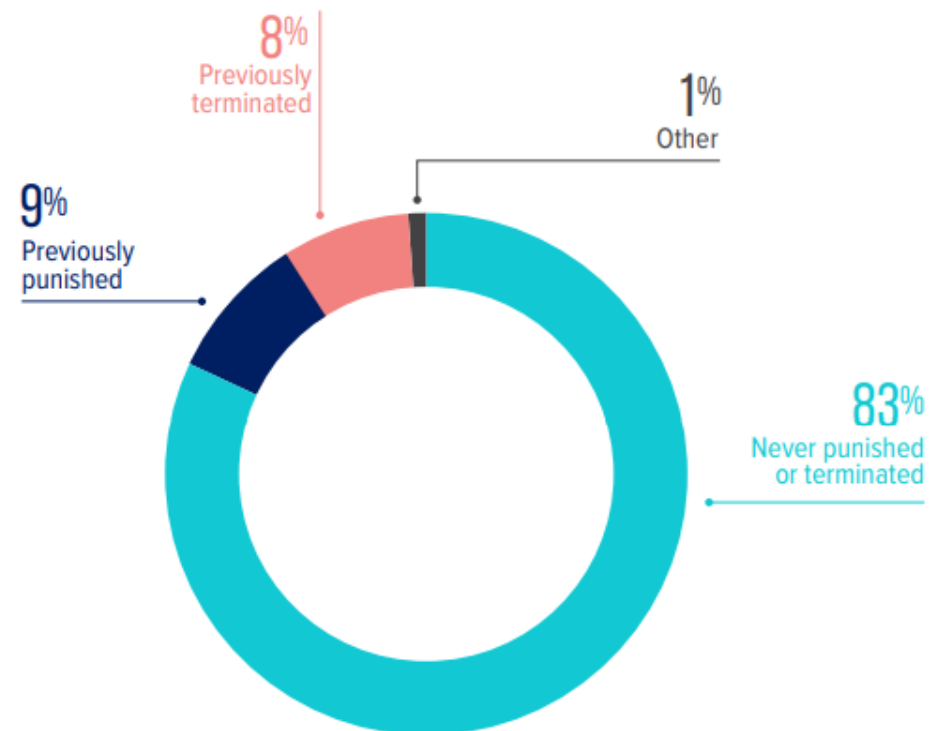
- Not Taking Time Off
- Working On Off Days
- Locking Cabinets/Drawers
- Declining Opportunities/Promotion
- Resisting Transfer
- Refusing to Let Other Help



Perpetrator Criminal History



Perpetrator Work History



THE CASE OF

The BAD MENTOR



No Arrest Record

➤ Landlord Liaison



Battery Charge
Worthless Check

➤ Long Term Experienced Employee



No Arrest Record

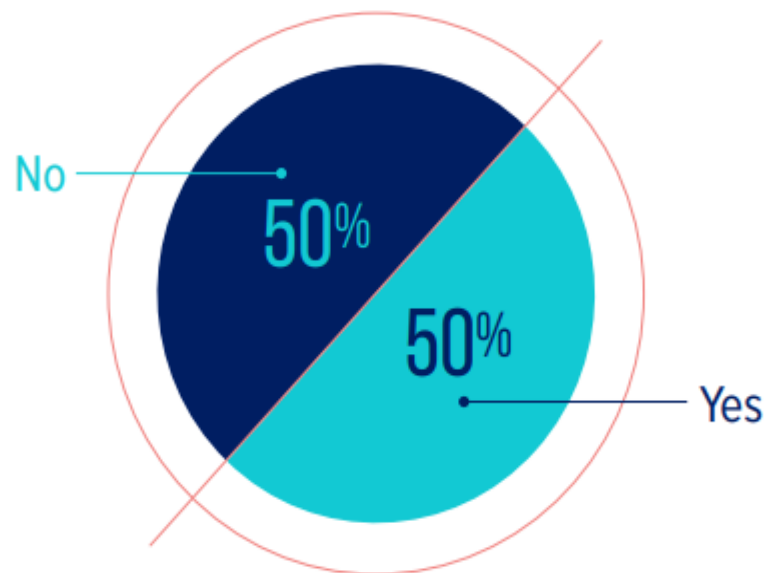
➤ 1 Year Employee



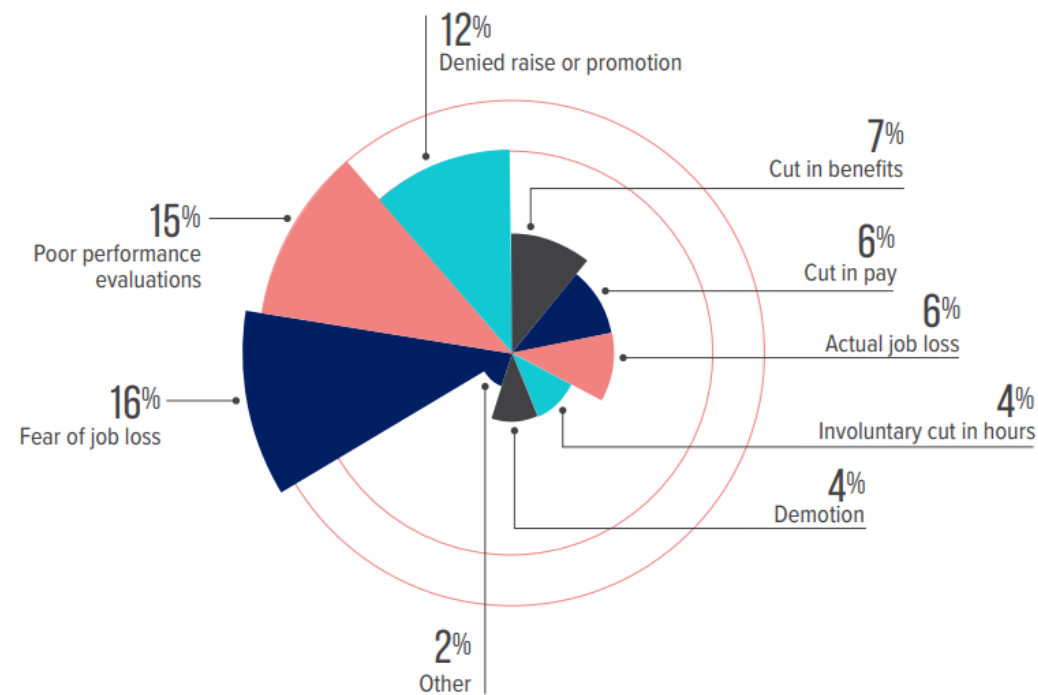
No Arrest Record

➤ 3 Year Employee

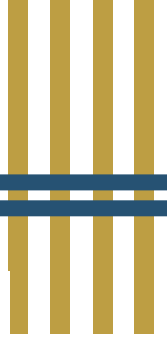
Did Perpetrator Experience Negative HR-Related Issues Before or During the Fraudulent Activity?



HR-Related Issues Most Commonly Experienced by Fraud Perpetrators



THE CASE OF The BAD MENTOR



➤ Landlord Liaison



Performance
Attendance
Attitude

➤ Long Term Experienced Employee



➤ 1 Year Employee



➤ 3 Year Employee

Fraud
Concealment

In 12% of cases
there was no
attempt to
conceal the
fraud

HOW DO PERPETRATORS CONCEAL THEIR FRAUDS?

Examining the methods fraudsters use to conceal their crimes can assist organizations in more effectively detecting and preventing similar schemes moving forward.

TOP 5 CONCEALMENT METHODS USED BY FRAUDSTERS



39%

Created fraudulent physical documents



32%

Altered physical documents



28%

Created fraudulent electronic documents or files



25%

Altered electronic documents or files



23%

Destroyed or withheld physical documents

Fraud
Concealment

In 57% of
cases false
evidence was
created

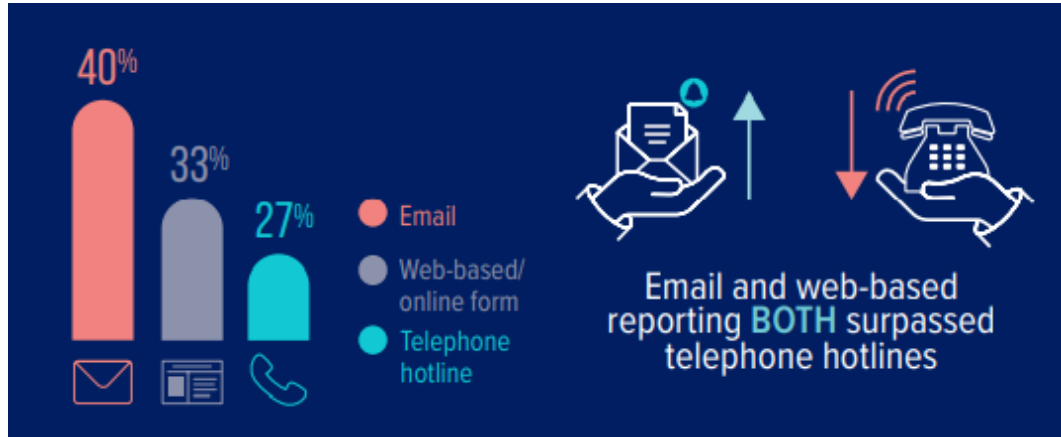




**IF AGENCIES DON'T HAVE A BUDGET FOR
FRAUD PREVENTION,
THEY AT LEAST NEED A PLAN**

Fraud
Concealment

In 57% of
cases false
evidence was
created



#1 Establish a Fraud Hotline

✓ Establish An Email Account

- Example: Reportfraud@anywhereref1.org
- Cost Effective
- Easiest to monitor
- More anonymous, people are more comfortable

✓ Advertise Your Fraud Hotline

- A fraud hotline advertises to clients, vendors and employees that you are serious about detecting & preventing fraud
- Put the hotline on your website, client applications, lobby, conference rooms, email signature lines, newsletters (encourage your community to communicate with you)

✓ Really Think About Who Will Be Responsible for the Hotline

- Make sure that information from the hotline is actually addressed and that the information is handled by the appropriate individual

#2 Excluded Parties List

- www.sam.gov

The screenshot shows the SAM.gov homepage. At the top, the SAM.gov logo is on the left, and a badge on the right says "Official U.S. Government Website 100% Free". Below the logo, a section titled "The Official U.S. Government System for:" lists various services: Contract Opportunities (was fbo.gov), Contract Data (Reports ONLY from fpds.gov), Wage Determinations (was wdol.gov), Federal Hierarchy (Departments and Subtiers), Assistance Listings (was cfda.gov), Entity Information (Entities, Disaster Response Registry, and Exclusions), and Entity Reporting (SCR and Bio-Preferred Reporting). To the right, a "NEW" badge is next to a "Learn More" link, followed by the heading "Register Your Entity or Get a Unique Entity ID". Below this, it says "Register your entity or get a Unique Entity ID to get started doing business with the federal government." and provides three buttons: "Get Started", "Renew Entity", and "Check Registration Status" (with a checkmark icon). A search bar at the bottom of the main section says "Already know what you want to find?" and contains a dropdown menu labeled "Select Domain..." and a text input field with "e.g. 1606N020Q02". Below the search bar, there are two columns of content. The left column is titled "Announcements" and contains four items, each with a date: "What do I need to know about validations in SAM.gov?" (Apr 26), "Have an active SAM.gov entity registration?" (Apr 26), "How to find or get your Unique Entity ID" (Apr 1), and "If you're an Entity Administrator, read this" (Apr 1). The right column is titled "Have Questions about SAM.gov?" and features a video player with the title "Get a Unique Entity ID (SAM)". The video player shows a thumbnail of a person and a list of bullet points: "UNIQUE ENTITY ID (SAM)", "12-character alphanumeric value", "Assigned, managed, and owned by the federal government", and "Validates your organization's legal business name and address". Below the video player, there is a section titled "Frequently Asked Questions" with four questions, each preceded by a question mark icon.

The Official U.S. Government System for:

- Contract Opportunities** (was fbo.gov)
- Contract Data** (Reports ONLY from fpds.gov)
- Wage Determinations** (was wdol.gov)
- Federal Hierarchy** (Departments and Subtiers)
- Assistance Listings** (was cfda.gov)
- Entity Information** (Entities, Disaster Response Registry, and Exclusions)
- Entity Reporting** (SCR and Bio-Preferred Reporting)

Register Your Entity or Get a Unique Entity ID

Register your entity or get a Unique Entity ID to get started doing business with the federal government.

[Get Started](#)

[Renew Entity](#)

[Check Registration Status](#)

Already know what you want to find?

Select Domain... e.g. 1606N020Q02

Announcements

What do I need to know about validations in SAM.gov? [\[Link\]](#) Apr 26
You will notice that when you start a new registration or update/renew an existing entity registration, SAM.gov asks you to validate your entity name and address. We recently made a change that validates your information against a new database. If you do not find a match, please create an incident in SAM.gov ...

Have an active SAM.gov entity registration? [\[Link\]](#) Apr 26
Remember, you do not need to update your SAM.gov entity registration unless it is expiring soon or your information has changed. Please help others who are just getting started or need to update their information by waiting until your renewal is required. If you try to update or renew and get no match, read this ...

How to find or get your Unique Entity ID [\[Link\]](#) Apr 1
To find your Unique Entity ID, visit your entity information in your Workspace, or use the entity information page to search for your entity. To get a Unique Entity ID, choose "Get Started" on the SAM.gov home page.

If you're an Entity Administrator, read this [\[Link\]](#) Apr 1
Entity Administrators don't need to take any action until your renewal date, unless your entity name or address has changed. When you renew or your entity name or address change, go here for help.

Unique Entity ID is here. This is what you need to know now [\[Link\]](#) Apr 1
To find out what changed on April 4, read this blog.

Have Questions about SAM.gov?

Get a Unique Entity ID (SAM)

UNIQUE ENTITY ID (SAM)

- ✓ 12-character alphanumeric value
- ✓ Assigned, managed, and owned by the federal government
- ✓ Validates your organization's legal business name and address

Video: How to get a Unique Entity ID

Frequently Asked Questions

- ❓ [Do I need a user account?](#) [\[Link\]](#)
- ❓ [What's the difference between signing up and registering?](#) [\[Link\]](#)
- ❓ [What if I already have a login.gov account?](#) [\[Link\]](#)
- ❓ [What do I need to register my entity?](#) [\[Link\]](#)



#3 Strengthen Your Forms



- ✓ Don't accept incomplete paperwork
- ✓ Never "write-in" information based on a verbal conversation
- ✓ Require the personal update of the information (email or written statement)
- ✓ Make sure people get a copy of what they sign or make it available on-line for their reference
- ✓ Require a signature to verify that Code of Conduct/Anti-Fraud Policy was given
- ✓ Sub-grantee/Contractor orientation attendance should be noted

#4 Surprise Audits

- ✓ **Advertise to employees and contractors that surprise audits are conducted**
 - ✓ The *knowledge* that surprise audits occur deters fraud
- ✓ **A surprise audit should truly be a surprise**
 - ✓ Keep it random but consistent
- ✓ **A “surprise audit” can/should extend beyond paperwork**
 - ✓ Call or send a survey to the client to verify the information in the file
 - ✓ Visit a home to verify an address or occupancy

#5 Memorandums of Understanding

- ✓ **Small agencies are often unable to truly segregate duties therefore management reviews are extremely important**
 - ✓ The person that handles client intake should not be the same person that audits the client file
 - ✓ The bookkeeper should not also receive and reconcile the bank statements
- ✓ **An agency similar to your own, is best equipped to provide an independent review of your policies, procedures, case management**
- ✓ **Consider an MOU with another agency for quality control reviews to mutually review files for each other**

#6 Develop an Anti-Fraud Policy

- ✓ Develop a written policy for **employees, clients and vendors**
- ✓ A good fraud policy will:
 - ✓ Define fraud
 - ✓ List examples of activities that are prohibited
 - *You may not receive gifts or tips from clients/vendors*
 - *You may not offer gifts or tips to employees*
 - *You must report a relationship to a vendor/employee within XX days*
 - *A familial relationship to a subcontractor must be reported & approved*
 - *You may not seek reimbursement for exaggerated expenses or expenses you have not incurred or for expenses reimbursed by another government agency*
- ✓ Require employees and contractors to report suspected fraud
- ✓ State your commitment to investigate
- ✓ State your commitment to report instances of fraud, waste and abuse to law enforcement

#7 Develop a Code of Conduct

- ✓ Serves as a framework for ethical decision making within an organization
- ✓ Written collection of the rules, principles, values, and employee expectations
- ✓ Communication tool that informs internal and external stakeholders about what is valued by a particular organization, its employees and management
- ✓ Don't just have it...reference it....often
- ✓ Provide/review the Code of Conduct with employees at least annually
- ✓ **Agencies with a Code of Conduct visible to the public are more likely to receive information about fraud within or against the organization**

#8 Surveys

✓ Surveys

- ✓ Landlord-tenant and subcontractor-contractor relationships can be hard to pierce when a contract is in place
- ✓ Conduct surveys upon move out/contract end
- ✓ Contact subcontractors *after* the completion of the project to verify wages, treatment, professionalism
- ✓ Don't make your surveying a secret

#9 Job Rotation/Mandatory Vacation

- ✓ **A significant portion of employee fraud/misconduct is discovered when an employee is on vacation or unexpectedly ill**
- ✓ **Require employees to take vacation and to delegate their duties to another individual while they are away**
 - ✓ Don't save everything for the employee to handle upon their return
- ✓ **Rotate job duties/case loads**
 - ✓ Result: Cross-trained employees
 - ✓ Result: Missing client information and/or non-compliance with policies/procedures likely to be discovered by employee taking over the job

#10 Employee Rewards

- ✓ Reward/acknowledge employees for their efforts.
- ✓ Include fraud detection and prevention efforts in employee evaluations.

- ✓ **Rewards don't have to be financial**

- ✓ Time Off Award
- ✓ Recognition



- ✓ Reiterate to employees that attention to fraud awareness contributes to annual ratings, promotion consideration, selection of team leaders etc.
- ✓ Challenge employees to not only identify the problem but to also recommend solutions

#11 Employee Support Programs

- ✓ **Employees discover loop-holes while performing their routine duties.**
 - ✓ Employees should be encouraged to report their discoveries.
 - ✓ This information should not be viewed as just “more work” or discounted (“That can’t happen because....”).
 - ✓ Don’t take offense.

- ✓ **Make sure employees know how to report fraud**

- ✓ **Ensure information reported by employees is held in confidence**
 - ✓ Employees will not report fraud suspected of co-workers or superiors if they are not certain that the information will be handled appropriately

- ✓ **Allow team leaders/supervisors to allot time for surprise audits and file reviews**
 - ✓ If management does not recognize that time is needed to perform fraud prevention/deterrence efforts – then the perception is that these efforts are not really important to management.

#12 Proactive Approach/Run “Discrepancy” Reports

- ✓ Subscribe to an Information Database
 - ✓ Lexis-Nexis
 - ✓ Accurint
- ✓ Run reports for vendors/landlords/employees/clients with the **same address**;
- ✓ Run report of **sequential** SSNs, EINs
- ✓ Check incorporation records (sunbiz.org)
 - ✓ Newly/Recently formed corporations
- ✓ Take note of returned mail;
- ✓ Better Business Bureau/Consumer Complaint websites
- ✓ Ask for and check vendor references
- ✓ Credit Card Statements

Tone At The Top

✓ **Employees discover loopholes while performing their routine duties.**

- ✓ Employees should be encouraged to report their discoveries.
- ✓ This information should not be viewed as just “more work” or discounted (“That can’t happen because....”).
- ✓ Don’t take offense.

✓ **Make sure employees know how to report fraud**

✓ **Ensure information reported by employees is held in confidence**

- ✓ Employees will not report fraud suspected of co-workers or superiors if they are not certain that the information will be handled appropriately

✓ **Allow team leaders/supervisors to allot time for surprise audits and file reviews**

- ✓ If management does not recognize that time is needed to perform fraud prevention/deterrence efforts – then the perception is that these efforts are not really important to management.

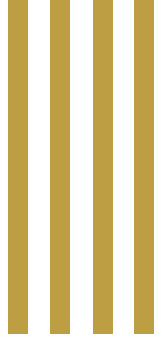
Don't Hide Dirty Laundry...Clean it!

- ✓ The occurrence of fraud alone is not a sign of a poorly run or mismanaged agency
- ✓ The *reaction* to the occurrence of fraud is what defines the management of an agency
- ✓ The existence of a fraud policy and proper handling of fraud is itself a deterrent to clients, vendors and employees
- ✓ Addressing fraud assists with ridding the industry of “bad apples”
- ✓ Addressing fraud to determine what procedures were violated allows management to truly close gaps to ensure the same fraud will not reoccur.



The Case of:

“Too Good To Be Bad”







ASSISTANT SPECIAL AGENT IN CHARGE

JAMILA DAVIS

JAMILA.DAVIS@SBA.GOV

202-997-5182

WWW.SBA.GOV



jamila-davis-cfe-cecfe-cfci-cigi