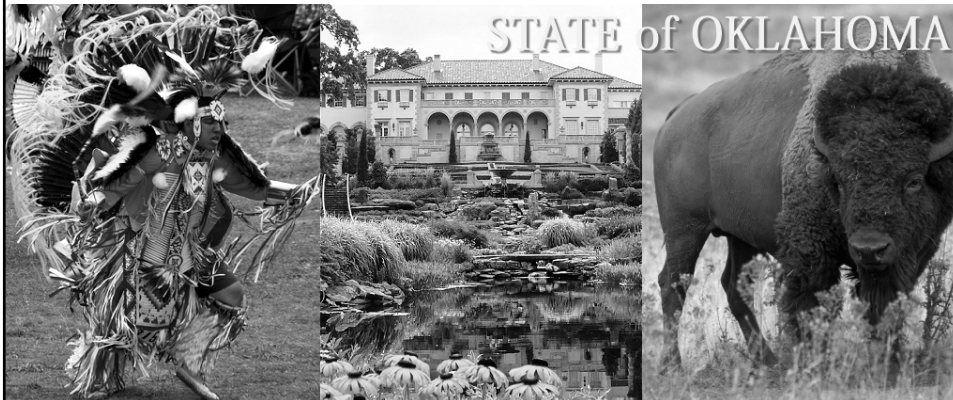


# Massachusetts' Fraud Prevention Program

National Association of State Auditors  
Comptrollers and Treasurers

April 19, 2010



## Agenda

- The Problem?
  - Approach to Economic Stimulus
- Gathering Evidence and Data to Address ARRA
- Solution

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## The Problem?

- Internal control program has been in place since 1989
  - Set up in statute (Mass General Laws Chapter 647 of the Acts of 1989)
    - Office of the State Comptroller develops guidelines
      - Internal controls must be clearly documented and updated
      - All transactions and “other significant events” must be documented and recorded in the Commonwealth’s accounting system (MMARS) or a delegated system approved by the Office of the State Comptroller that sends information daily to MMARS

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## The Problem?

- Set up in statute (Mass General Laws Chapter 647 of the Acts of 1989)
  - Office of the State Comptroller develops guidelines
    - Transactions and other significant events must be authorized and executed by those with authority or delegated from those in authority
      - » Signatory authorization must be written
    - Qualified supervision must be in place
    - Access to records and resources must only be by authorized officials
    - Internal control officer named for each agency
  - Internal controls are tested at least annually by State Auditor and independent auditor

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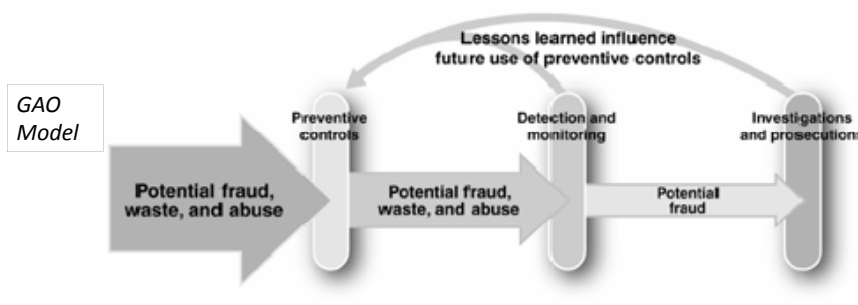
## The Problem

- American Recovery and Reinvestment Act created the Recovery Accountability and Transparency Board with 2 goals
  - Prevent and detect waste, fraud, and abuse
  - Provide transparent reporting of Recovery-related funds as they are distributed and used
    - Each government and federal agency must have a program to prevent and detect waste, fraud and abuse
- Different than internal controls

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## Critical Rule on Fraud within ARRA

- Huge funds spent on mitigating fraud, waste and abuse – but wait...
  - Even 5% risk is \$40 billion



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## The Problem

|                           | Massachusetts Internal Controls Law   | Fraud, Waste and Abuse Prevention Program  |
|---------------------------|---|--|
| Control Risk Mitigation   | Documentation, testing, chain of command approval   | <i>Preventive</i> through procedures, continuous monitoring and updating               |
| Audit Risk Mitigation     | Immaterial misstatement could occur, but zero threshold for internal control violation        | Zero tolerance – audit risk should be lowered through continuous monitoring            |
| Inherent Risk Mitigation  | Not really addressed  | As focus is on prevention, inherent risk should be lowered                             |
| Detection Risk Mitigation | Internal controls tested at least annually substantively – should be designed to detect fraud | Detection risk should be lowered through continuous monitoring and up front - controls |

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## Gathering Evidence & Data to Address ARRA

- December 2008 – February 2009 - Analyzed ARRA as drafts were being released from Congress and saw provisions for the RAT Board
- February 17, 2009 – ARRA signed by President Obama
- Last week of February 2009 and into March 2009 – met with State Auditor to discuss provisions
- End of March 2009 – met with GAO and discussed
- March 26, 2009 – 1<sup>st</sup> Compliance Supplement released from State Comptroller
  - On adjusting internal control plans and records management under ARRA

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## Gathering Evidence & Data to Address ARRA

- March 30<sup>th</sup> – GAO releases widely read report – *GAO Seeks the Public's Help in Fighting Waste, Fraud, Abuse or Mismanagement of Recovery Fund Acts*
  - Most levels of government have no way of detecting or preventing fraud, waste and abuse
  - Urges citizens to use Fraud Net
- April 23<sup>rd</sup> – 1<sup>st</sup> GAO report to Congress –
  - Most states in the formative stages of task forces
- May – because of report, Massachusetts forms Stop Fraud Task Force
  - Governor, Attorney General, Auditor, Inspector General
- May – Comptroller forms a best practices group

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## Gathering Evidence & Data to Address ARRA

- June – Best Practices Group commenced meetings with agency internal auditors, Inspector General, Attorney General, State Auditor, FBI on tips and techniques to stop fraud
  - Results?
- August – Governor contracts with KPMG to review readiness for ARRA statewide
- September – Best Practices Group starts producing document – updates internal control guidance for ARRA
- October – Document split in two – ARRA focused and General Focused
- October 21<sup>st</sup> – KPMG releases its report to the Governor
- November – Toolkit and brochure released – all agency training begins

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## Key Findings in KPMG Report

- 73 programs evaluated, 22 found to be of high risk of which 1 was brand new, 12 new type A's, 1 inherently risky (Medicaid)
- Departments are strong in internal controls
- Departments are weak in prevention of fraud, waste and abuse
  - Minimal staff and budget in all aspects of ARRA
  - Systems are focused on internal controls not on prevention
  - Social engineering is an issue
  - Issues with agencies that have dramatically different funding levels under ARRA than in non-ARRA times

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## Readiness Assessment for ARRA as of August 31, 2009

| Compliance Requirement                | Readiness Assessment Performed  | Guidance Issued | Terms & Conditions Communicated | Training | Ongoing Monitoring |
|---------------------------------------|---|-----------------|---------------------------------|----------|--------------------|
| Obligation & Availability of Funds    |   |                 |                                 |          |                    |
| Comingling of Funds                   |   |                 |                                 |          |                    |
| Section 1512 Reporting                |   |                 |                                 |          |                    |
| Section 1512 Quality Assurance Review | Definitions –<br>Green = Totally Ready<br>Yellow = Plan to be ready – various stages of implementation<br>Red = No plan |                 |                                 |          |                    |

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## Readiness Assessment for ARRA as of August 31, 2009

| Compliance Requirement   | Readiness Assessment Performed | Guidance Issued | Terms & Conditions Communicated | Training | Ongoing Monitoring |
|--------------------------|--------------------------------|-----------------|---------------------------------|----------|--------------------|
| Jobs Reporting           |                                |                 |                                 |          |                    |
| Sub-recipient Monitoring |                                |                 |                                 |          |                    |
| Buy American             |                                |                 |                                 |          |                    |
| Davis Bacon              |                                |                 |                                 |          |                    |
| F, W & A Prevention      |                                |                 |                                 |          |                    |
| F, W & A Detection       |                                |                 |                                 |          |                    |
| F, W & A Response        |                                |                 |                                 |          |                    |

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### So what did we focus on?

- Guidance / Training written for monitoring of sub-recipients including peer training
- Standard contracts changed for Davis – Bacon
  - What was the unexpected result? (Audience participation moment!)
- Fraud Waste and Abuse Prevention, Detection and Response program initiated

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**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.

It is up to you

**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) 374-9927 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)

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Marie J. Desjardis  
 Comptroller

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



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**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 occurrence.

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.

**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 265A, 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 a story:** Agencies, particularly those new to operating or managing state and/or federal funds, or that have new programs 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.
- **Watch the little things:** Review all documentation and reconciliations for unusual entries or deviations from programmatic purposes. Examples: checks for correct amount, amount that appear too high or low, management override, duplicate services.
- **Spread the word:** Alert subcontractors 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.
- **Speak it up:** Verify that segregation of duties is in place. These measures should be applied consistently across the agency and in all locations. Give your staff or rotate jobs if necessary.

**THINK LIKE A TAXPAYER BECAUSE YOU USE ONE**  
 See a detailed checklist of tools at the Comptroller's web site, Internal Controls page.



**BUY SMART**

- For procurement of goods/services, use the Commonwealth's Standard Contract Form and Terms and Conditions.
- Check bidder/vendors/contractors for delinquency or exclusion from any public activity due to violations of law or suspended license, 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.


**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 accounting plan.
- Have a sign out sheet for items that are unaccountable to theft.
- Don't 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).

**According to the Association of Certified Fraud Examiners:**  
 • Fraud is astronomically costly: The median loss caused by fraud 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.

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## Key Elements – “True North’s”

- Tools must be replicable by agencies
- Training must break the norm      War Stories 
- Handbook must be “alive”
- Handbook must contain links to common, publicly available sources of information
- Posters must be easily seen and understandable
- All 85,000± personnel must at least be aware of program
  - Prime focus on training to 5,000 MMARS users

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## Elements of Handbooks

- Overview of Fraud, Waste & Abuse –
  - Fraud Triangle
- What is Fraud?
- Red Flags and Fraud Indicators
  - Bribery
  - Conflicts of Interest
  - MBE / WBE / DBE fraud
  - Kickbacks / “Pay to Play”

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## Elements of Handbooks

- Red Flags and Fraud Indicators
  - Commodities, materials and supplies overcharging
  - Product substitution
  - Time overcharging
- Indicators by area of organizational responsibility (management, contracts, payroll, accounting...)

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## Elements of Handbooks

- Whistleblower hotlines and websites
- Whistleblower protection statutes
- Complete checklist of items that agencies can do to combat fraud, waste and abuse
  - Tools and resources for each item including websites, links to queries and other websites

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## And It's Already Working...

- Positive pay system implemented at college
- Training of all financial employees almost finished
- Nationally – GAO reports that as of 12/30/09, 179 allegations of fraud were received out of millions of payments and \$88.7 billion spent
  - 66% closed because of nonspecific or unrelated information
  - 18% closed after GAO / Inspector general investigation
  - 16% open at either GAO or inspectors general

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**QUESTIONS?**

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