

COMMONWEALTH OF VIRGINIA

***Critically Thinking About
Fraud Prevention***

2016 PAAO Grant Management Workshop

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TODAY'S AGENDA

- **Critical Thinking**
- **Fraud**
- **Fraud Prevention**
- **Critical Thinking & Fraud Prevention**
- **Application of the Concept**

CRITICAL THINKING

**Disciplined
thinking that is
clear, rational,
open-minded, &
informed by
evidence.**

– *Dictionary.com*



CRITICAL THINKING

**Thinking about
your thinking
while you are
thinking in order
to make your
thinking better.**

– *Raven Catlin*



STEPS IN CRITICAL THINKING

- **Define the Problem**
- **Ask Questions (How & Why)**
- **Get Answers**
- **Examine the Evidence**
- **Consider Your Assumptions & Biases**
- **Re-examine the Evidence**
- **Make a Decision**

CRITICALLY THINK ABOUT LUNCH



CRITICALLY THINK ABOUT LUNCH

Problem

- **I hate chicken**

How & Why

- **Conference Planner chose it because it was affordable**

Evidence

- **Look at your plate**

CRITICALLY THINK ABOUT LUNCH

Assumptions & Biases

- **Chicken is cold & greasy**

Evidence

- **Look at your plate again & discover that the chicken is hot & smells wonderful**

Make a Decision

- **Eat the chicken or stick to the salad**

FRAUD

The intentional deception perpetrated by someone which could result in benefit to themselves or their company or could result in the detriment to others or their company.



FRAUD PREVENTION



Fraud prevention is intentional planning & activity to reduce the risk of fraud within your processes or your organization

ACTIONS FOR FRAUD PREVENTION

1. **Visible & Vocal Leadership**
2. **Active Fraud Brainstorming**
3. **Policy on Fraud Responsibilities**
4. **Anti-Fraud Controls**
5. **Anti-Fraud Behaviors**
6. **Anti-Fraud Training**
7. **Defense Against Special Challenges**
8. **Fraud Response in Place**

– *John Hall*

FRAUD PREVENTION

Active Fraud Brainstorming

- **Critical thinking is key to identifying exposures.**
- **Managers should be responsible for knowing the exposures to fraud in their areas.**



CRITICAL THINKING & FRAUD BRAINSTORMING

Critical Thinking Step	Application to Fraud Brainstorming
Define the Problem	Based on the knowledge of your business, think of a way that fraud could occur.
Ask Questions (How & Why)	How would someone commit the fraudulent act, why they would be able to commit the act & what motive they have for committing the act.

CRITICAL THINKING & FRAUD BRAINSTORMING

Critical Thinking Step	Application to Fraud Brainstorming
Examine the Evidence	Brainstorm your answers to the questions.
Assumptions & Biases	My staff is honest & would not steal.

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CRITICAL THINKING & FRAUD BRAINSTORMING

Critical Thinking Step	Application to Fraud Brainstorming
Re-examine the Evidence	Look at the answers to your questions in light of your assumptions & biases being wrong.
Make a Decision	Assess the probability the fraud act could occur & what impact it would have. Critical thinking could again be applied to these activities.

APPLICATION OF CONCEPT - CASE STUDY

- **George was contracted by Joe to conduct home rehabilitation work on several properties.**
- **Joe was receiving federal grant money from the city.**
- **George subcontracted the work for less than what Joe was paying him.**
- **Joe & George then split the excess grant money that was not used to pay the subcontractor.**
- **Mary works for a city in the same state & wants to develop controls to prevent a similar fraud.**

APPLICATION OF CONCEPT - CASE STUDY

Critical Thinking Step	Application to Fraud Brainstorming
Define the Problem	Mary defines the problem as collusion may occur where a grantee receives kickbacks of excess grant money not spent on sub-contractor.
Ask Questions (How & Why)	How did the fraud occur, why did it happen & what was the motive?

APPLICATION OF CONCEPT - CASE STUDY

Critical Thinking Step	Application to Fraud Brainstorming
Examine the Evidence	<p>How – Party A would receive kickback from Party B who spent less on services than was provided by the grant.</p> <p>Why – No control exists to ensure work is performed at cost or that Party A & Party B have combined business interests</p> <p>Motive – Greed.</p>

CRITICAL THINKING & FRAUD BRAINSTORMING

Critical Thinking Step	Application to Fraud Brainstorming
Assumptions & Biases	Highly respected community leaders are honest & upstanding & would not defraud the city.
Re-examine the Evidence	In the other city the perpetrator was a highly respected community leader, the perpetrator also owns the majority of community housing projects in my city.

CRITICAL THINKING & FRAUD BRAINSTORMING

Critical Thinking Step	Application to Fraud Brainstorming
Make a Decision	<p>Likelihood of occurrence is high & impact is high. Mary decides:</p> <ul style="list-style-type: none">• The grant accountant will match invoices from subcontractors to payments made to contractors.• The grant administrator will review state business registrations for the grantees.

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Questions?

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