
Valerie Mattos

Audits and Compliance

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- Travel and Expense Fraud
 - Guest Speakers:
 - **California Highway Patrol**
 - Captain Jim Jacobs & Lieutenant Ivan Jacome
 - **State Auditor's Office**
 - Beka Clement

Captain Jim Jacobs
Lieutenant Ivan Jacome
California Highway Patrol

Beka Clement

State Auditor's Office

Thank you!

Questions: statewidetravelprogram@dgs.ca.gov

What is Fraud?

- ❑ Wherever there is money, there is potential for fraud
- ❑ Fraud is the intentional deception or misrepresentation made by an individual, knowing that the falsification could result in some unauthorized benefit to them or to others.
- ❑ Non-compliant fraudulent behavior by employees is often referred to in the fraud community as an “expense reimbursement scheme”. However, it is important to remember that in STP, not all T&E fraud involves expense reimbursement. Unauthorized disbursements are also considered fraud.
- ❑ Unauthorized disbursements come in a variety of different forms.

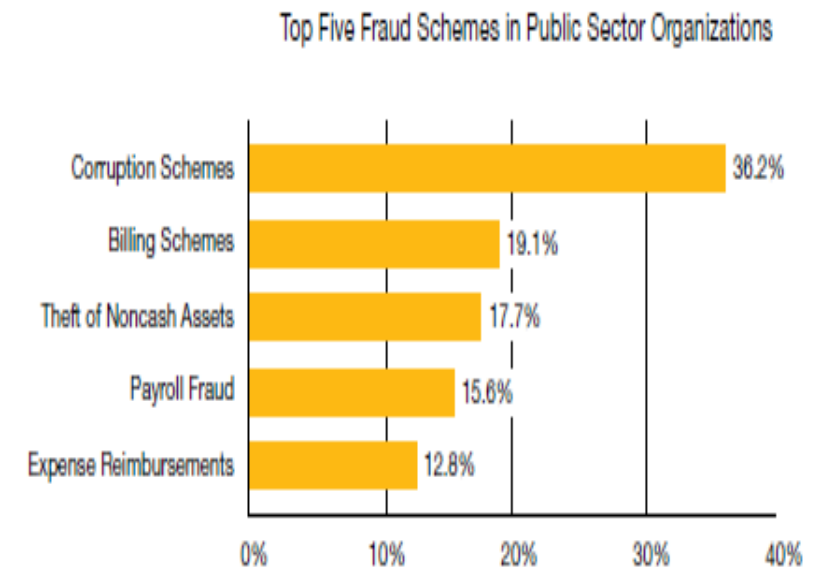
Example #1: SWA fare is booked for state business travel. Employee cancels trip and the fare is refunded in the form of a travel credit to the employee’s Rapid Rewards account. The employee uses the travel credit to purchase personal travel.

Example #2: Employee travels regularly for state business, and deliberately books costly SWA “Anytime” fares in order to generate more Rapid Rewards points. More points=free fares for personal use.

Example #3: Employee uses Uber to travel from the airport to their hotel and gives the driver a 40% tip.

- ❑ Whenever a state employee deliberately manipulates purchasing or reimbursement procedures to generate unlawful disbursements--they commit fraud. Corrective action must be taken against state workers who commit fraud.

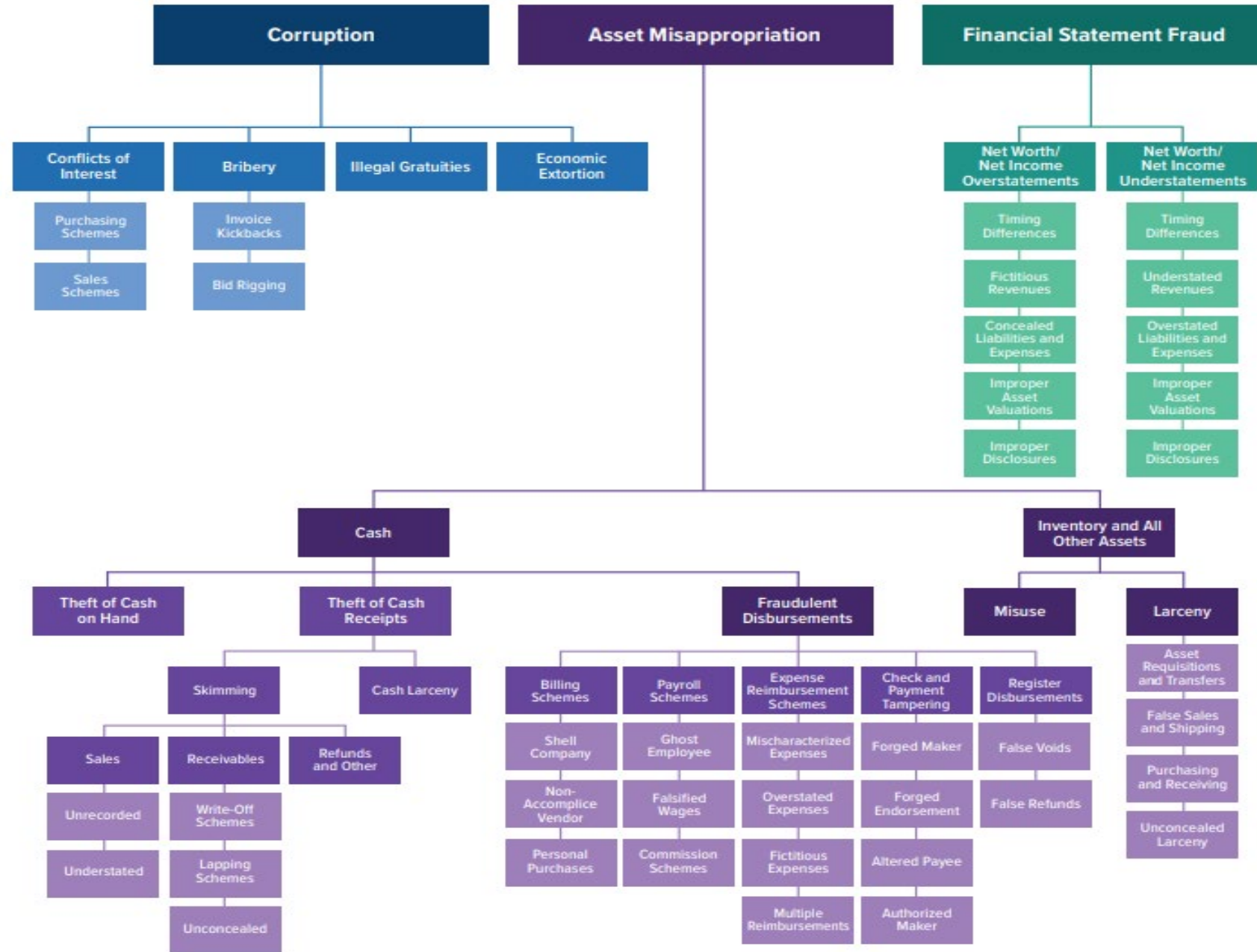
WHAT DOES FRAUD MEAN TO YOU?



The Fraud Tree

What is Travel and Expense Fraud?

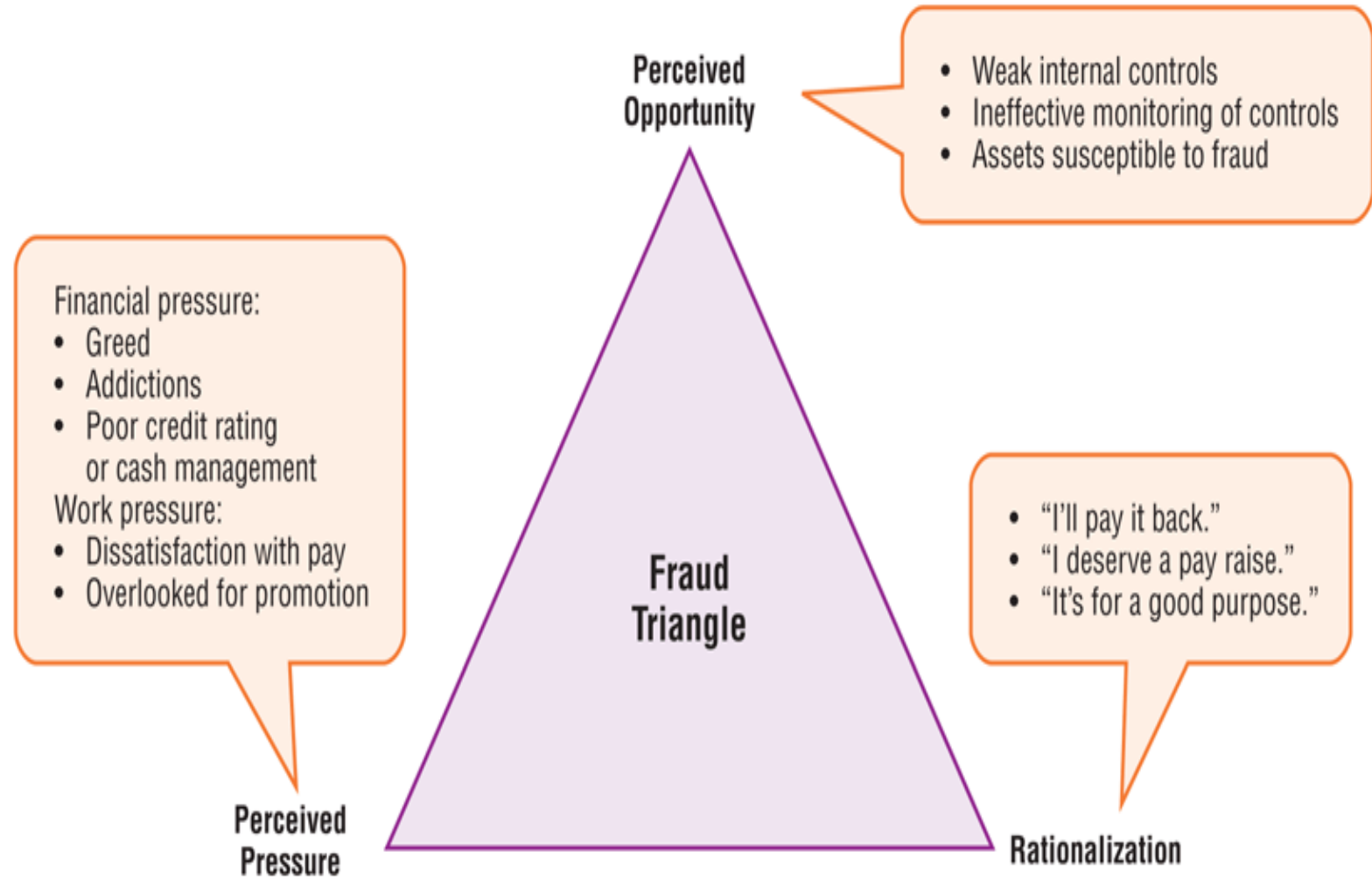
T&E fraud is a form of occupational fraud that falls under asset misappropriation on The Fraud Tree. T&E fraud schemes typically involve an abuse of resources, outright fabrication of expenses, or inflation of actual expenses for things like airfare, lodging, per diem, gas mileage, or “on the clock” time.



How and why does fraud occur?

To fight fraud, you must not only accept that it occurs, but also how and why it occurs. Several decades ago, after considerable research, Donald R. Cressey, a well-known criminologist, developed the Fraud Triangle.

The three elements of the Fraud Triangle are: opportunity, pressure, and rationalization. For fraud to occur, all three elements must be present. Effectively addressing any one of the elements will help minimize the fraud risk.



Elements of The Fraud Triangle

Pressure- “I need to”

Pressure is another way of saying motivation. In other words, what is it in a person’s life that drives them to commit fraud? While greed alone can be a pressure, pressure could also stem from personal situations that create a demand for more money; such situations might include vices like drug use or gambling or merely life events like an ill family member or a spouse losing a job. At other times, pressure arises from problems on the job; unrealistic performance targets may provide the motive to perpetrate fraud.

Opportunity- “I’m able to”

If one is talking about theft, there must be something to steal and a way to steal it. In our case, we are talking about stealing public funds through fraudulent travel and expense claims. Anything of value is something to steal. Any weakness in a system—for example, lack of oversight—is a way to steal. Of the three elements of the Fraud Triangle, opportunity is often hard to spot, but the easiest to control through organizational or procedural changes.

Rationalization- “I’m justified to”

There are two aspects to rationalization: One, the fraudster must conclude that the gain to be realized from a fraudulent activity outweighs the possibility for detection. Two, the fraudster needs to justify the fraud. Justification can be related to job dissatisfaction or perceived entitlement, the intent to make the victim whole sometime in the future (“I’ll pay it back later”), or saving one’s family, possessions or status. Rationalization is discernible by observation of the fraudster's comments or attitudes.

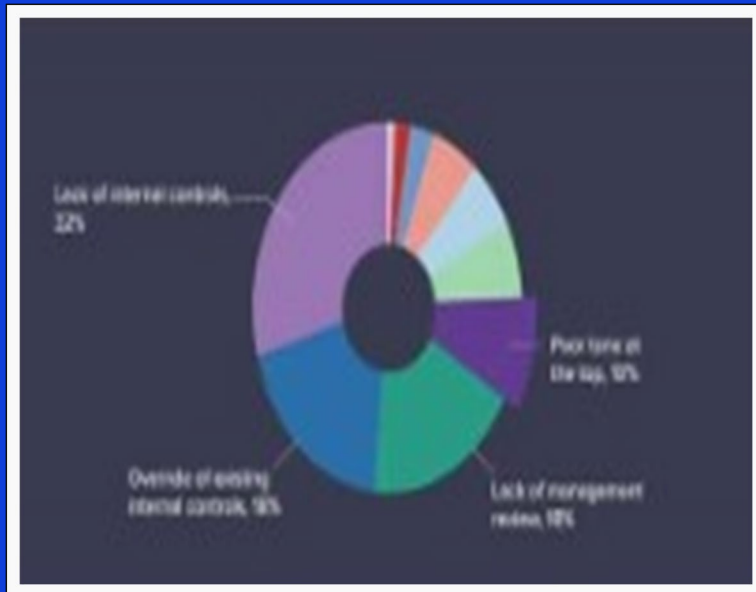
How Can Your Department Prevent Fraud?

Just as there never can be an all-encompassing list of potential fraud schemes, there also is no such thing as a foolproof system for preventing fraud. However, implementing fraud controls and applying some basic best practices can help your department significantly reduce its risk exposure. When you have effective internal controls, you help remove the “opportunity piece” of the fraud triangle and thereby minimize your agency’s susceptibility to fraud.

Does your agency have these in place?

- Proper Tone at the Top
- Code of Conduct/Code of Ethics
- Department Travel Policy
- Anti-Fraud Policy
- Internal Audits
- Mandatory pre-travel management review and approval
- Mandatory post-travel management review and approval
- Management certification of financial statements
- Employee tip line for reporting fraud and abuse

If you do not have internal controls in place, it is imperative that you immediately begin working with your Administration to establish them. This will likely require “all-hands-on-deck” from upper management, human resources, in-house legal counsel, accounting, head of internal audits, etc.



Fraud Prevention Check-up



The most cost-effective way to limit fraud losses is to prevent fraud from occurring in the first place. How vulnerable is your department to fraud? Do you have adequate controls in place to prevent it? Find out by using the ACFE's Fraud Prevention Check-Up, a simple yet powerful test of your department's fraud health.

[https://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/Fraud_Prev_Checkup_DL\(1\).pdf](https://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/Fraud_Prev_Checkup_DL(1).pdf)

Your Critical Role in Fraud Fighting

Duty to prevent fraud

Duty to detect and investigate fraud

Duty to respond and remedy fraud

STP's Role in Fraud Fighting

- Clearinghouse for reporting all forms of misuse discovered in the STP. We will guide you in the right direction and help connect you with the proper entity best suited to investigate the misuse you discover.
- We engage in ongoing, proactive data monitoring and analysis of statewide travel to ensure compliance and prevent fraud. However, you are STP's first line of defense in preventing misuse. We must honor the public's trust in us and work together to safeguard public funds!
- When you suspect or discover non-compliance or misuse, we work with your department to fact-find and assist you in taking proper steps toward corrective action. We must ensure accountability of the offender and get to the root of the compliance problems in order to end the abuse and safeguard state assets.
- Judgement-free zone. We are an ally and source of support to you and your department in your fraud fighting and corrective action efforts.

Some examples of misuse we are seeing in STP...

- Booking refundable Anytime fares for the benefit of same-day flight changes at the ticket counter that cannot be tracked through Grasp/Concur. This scheme has led to fraudulent overtime claims and expensing for costs that never happened, such as meal per diem and additional days/hours of airport parking.
- Booking expensive refundable fares, canceling the flight, and then contacting the airline directly to request that the flight be credited in airline travel credits rather than credited back to the original form of payment. Travel credits then used to book personal travel.
- Using Uber/Lyft and rental cars for trips that are considered commuting expenses. This has become a major problem due to so many employees teleworking.
- Seeking reimbursement for premium airport parking.
- Renting a rental car while also using Uber/Lyft on the same trip. Ex: Employee rents a car at the airport, drives it to the hotel, and then uses TNT while the rental car is parked in the hotel's valet at \$60/night.
- Seeking reimbursement for business expenses that never actually materialized, such as fees for a convention that was canceled as a result of the pandemic.
- Collusion among multiple employees to bill separately for travel expenses, even though they traveled together.
- Seeking reimbursement for Uber and Lyft rides with outrageous surge charges and tips outside of policy (\$20 tip on an \$11 Uber fare)
- Seeking reimbursement with fraudulent receipts from receipt generator websites such as <https://expensesreceipt.com/choose-template.html>.

Fraudulent Receipts Created Using a Free Online Receipt-Maker

RUTHERFORD GRILL
1180 RUTHERFORD ROAD
RUTHERFORD, CA.
<707> 963-1792

ORDER: 964 05/25/2021
HOST: KERRI 6:54 PM

1 VEGGIE BURGER \$ 18.99
1 ICE TEA \$ 3.99

VISA 9838 SALE

SUBTOTAL \$ 22.98
TAX \$ 1.78
TOTAL: \$ 24.76

TRANSACTION TYPE: SALE
AUTHORIZATION: APPROVED
PAYMENT CODE: 29015521
PAYMENT ID: 488880827
CARD READER: SWIPED/CHIP

TIP: -----
TOTAL: -----

X -----

CUSTOMER COPY



Park 'N Fly at SFO
160 Produce Avenue
South San Francisco, CA. 94080
(650) 877-8438

PARKING RECEIPT

7:51 AM

05/26/2021
Space: J5

Paid:\$470.00

THANK YOU FOR FALLING FOR MY
FRAUD SCHEME!



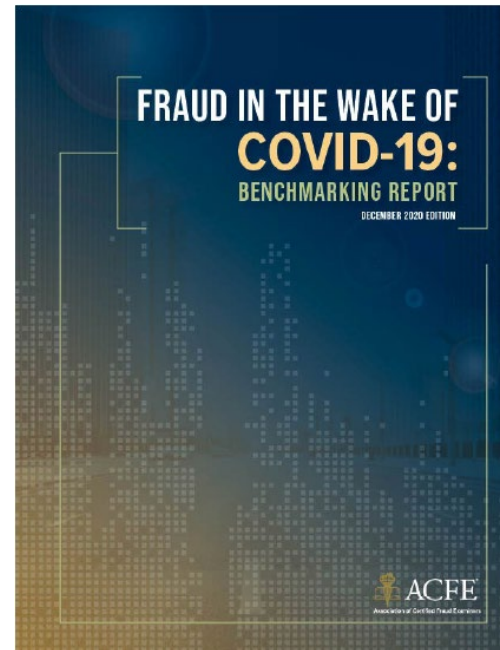
The “Accidental” Fraudster: Advice From a Forensic Accountant



Reporting Misuse Involving State Business Travel

- There is no “one-size fits all” approach to reporting fraud at the state level. How you report T&E fraud and which investigative branch you should report to will depend on a variety of circumstances such as: your internal department policies and reporting procedures, how the theft was committed, parties involved, jurisdiction, evidence, dollar amounts involved, etc.
- Some good options for ensuring corrective action: referral for investigation to HR, law enforcement, or State Audits
- Use STP Audits and Compliance as a clearinghouse for reporting. We are a good place to begin sounding the alarms. We will guide you in the right direction and help connect you with the proper branch best suited to investigate the misuse you discover. The benefit to contacting us is that we know who to contact, and we can help you ensure that the matter does not slip through the cracks.
- You should first engage with us via email so that we can memorialize the notification and ensure accountability at all levels. Please email: stpaudits@dgs.ca.gov. Our commitment is to respond quickly to your inquiry and get you connected to the help you need to stop the abuse.

Excellent Anti-Fraud Education Resources



Report to the Nations: 2020 Global Study on Occupational Fraud and Abuse

<https://acfe-public.s3-us-west-2.amazonaws.com/2020-Report-to-the-Nations.pdf>

Fraud in the Wake of COVID-19: Benchmarking Report

www.acfe.com/CovidReport