



Department of  
**Environment &  
Conservation**

# 2022 National Tanks Conference

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# AGENDA

- What is Fraud?
- Auditing and Fraud Investigations
- Most Common Fraud Indicators
- Discussion/Questions



**WHAT IS FRAUD?**

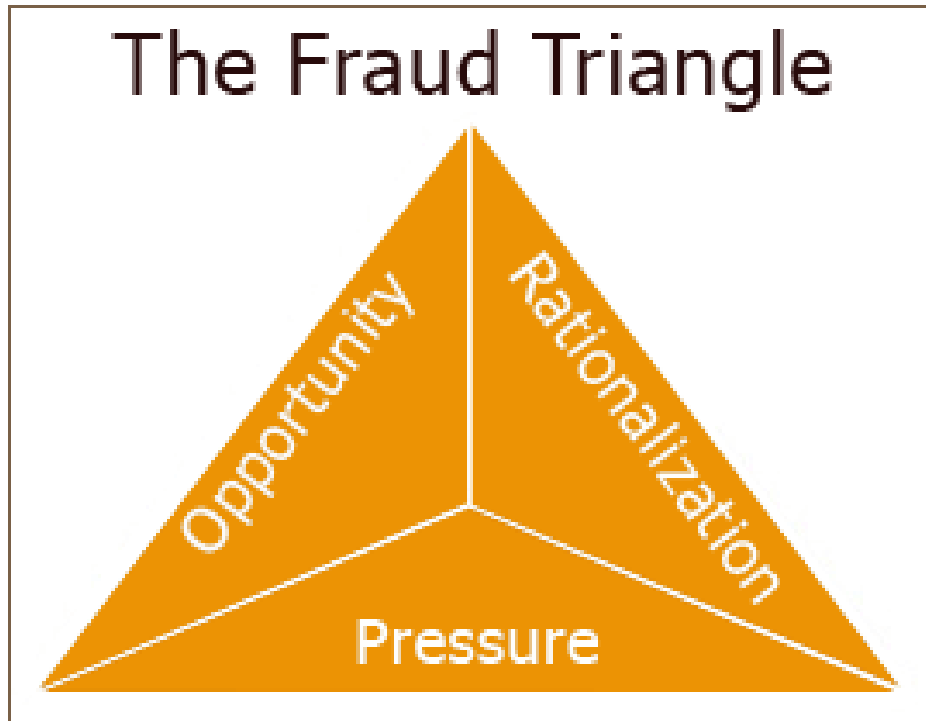
# OVERVIEW

- Define fraud
- Fraud Triangle
- Elements of Fraud
- Professional Skepticism

# WHAT IS FRAUD?

- An **intentional** act that results in a material misstatement in financial statements that are the subject of an audit
- Primary factor that distinguishes fraud from error is the underlying action that results in the misstatement is **intent**

# THE FRAUD TRIANGLE



- Pressure
  - Provides a reason to commit fraud
- Opportunity
  - For the fraud to be perpetrated
- Rationalization
  - Of committing a fraudulent act

# PRESSURE

- Personal habit
  - Alcohol, drug or gambling addiction, or an expensive extramarital affair may result in financial pressures
- Work-related feeling
  - Feelings of resentment because of being overworked, underpaid, or not getting promoted may prompt a person to “get even” with the employer
- *Pressures that may motivate a person to commit fraud might include:*
  - Financial in nature
    - Debt from high medical bills, overuse of credit cards, divorce, investment losses, or greed

# OPPORTUNITY

- **Constantly** operating under crisis conditions
- **Absence** of mandatory vacations
- Failure to **uniformly** and **consistently** enforce standards and policies or to **punish** perpetrators

*Examples of conditions that can provide an opportunity for employee fraud in an organization include:*

- **Inadequate** segregation of duties
- Failure to inform employees about **rules** and **consequences** of violating them
- Rapid **turnover** of employees



# RATIONALIZATION

- Believes there's **no help** from outside
- Labels theft as **borrowing** and fully intends on repaying
- Job **dissatisfaction/something** owed to them
- Unable to understand or **does not care** about the consequences of their actions

*Examples of attitudes/rationalization an employee might use:*

- It's **justified** to save family member or loved one
- Believes they will lose everything if they don't do it

# ELEMENTS OF FRAUD

- All fraud schemes have four key elements in common. The activity:
  - Is concealed
  - Violates the perpetrator's fiduciary duties to the victim organization
  - Is committed for the purpose of direct or indirect financial benefit to the perpetrator; and
  - Costs the employing organization assets, revenue or reserves

# RED FLAGS

- Red flags do not indicate guilt or innocence
- Red flags are merely warning signs of fraud
  - Living beyond ones means
  - People who are dissatisfied employees
  - People who never take vacation or sick time
  - People who have close relationships with vendors or customers
  - People who work a lot of overtime
  - People who have dominate personalities

# EXAMPLES OF FRAUD

- Inappropriate charges to a travel charge
- Falsifying time sheets
- Falsifying documents
- Double-billing



# AUDITING AND FRAUD INVESTIGATIONS

# AUDITING VS. FRAUD INVESTIGATION

- Auditing
  - conduct an official financial examination of (an individual's or organization's accounts)
- Fraud Investigations
  - Fraud investigations are used to expose fraudulent wrongdoing and to punish the perpetrator for this deceitful and illegal act. Fraud investigations are necessary to ensure the correct individual is punished, and to ensure that the victim of fraud is offered justice

# INITIALIZATION

- Fraud audits begin with an initialization process
- Our office regularly conducts audits on Corrective Action Contractors
- Incompetent accounting or handling of financial
- Information does not necessarily indicate fraud
- Intent is an essential element for fraud to exist

# DEVELOP A PLAN

- If improprieties exist
- Gather information about the contractor
- Begin a review process of the contractor
- Determine who is involved
- Gather evidence
- Connect individuals to specific events
- Develop an audit plan



# See Audit Plan Example

- Audit Plan Example

# INTERVIEWS

- Interviews are performed on any employee to assess the depth of fraud in the agency
- Can help find witnesses who may have additional information on who is directly involved in the fraud
- Multiple opinions or comments from employees can help strengthen the argument of fraud existing in the company

# INTERVIEWS

- Auditors initially avoid interviewing individuals who conducted in the fraudulent activities
- Avoiding these individuals helps auditors not scare these individuals away from the investigation

# ISSUE A REPORT

- Issuing a report is the final step of a fraud audit
- Include information detailing the fraudulent activity
- Significant fraudulent activity may result in civil or criminal charges against the individual conducting the fraud

# Example of Investigative Report

- Example of Investigative Report/Executive Summary
  - Memorandum
  - Per Your Request, Please see below ...
  - Executive Summary
  - Origin of Review
  - Objectives of the Review
  - Scope of the Review
  - Interviews
  - Possible Violations of Law/Rules
  - Conclusion
  - Referral



# FRAUD INDICATORS

# OVERVIEW

- Define Fraud Indicators
- Common Fraud Indicators
- Finding Fraud
- Brain Storming

# FRAUD INDICATORS DEFINED

- Best described as “hints” or “clues” that a closer look should be made at an area or activity
- Often referred to as “red flags”



# TWO APPROACHES TO CONSIDER

- Activities may be either be:
  - Completely covert (hidden from view), or
  - Conducted in the open (completely obvious to all, but disguised to appear as if they are part of the normal operations)
- Choosing one over the other depends on skill, experience, and the level of internal controls

# TO IDENTIFY FRAUD INDICATORS

- The manager, auditor, or investigator must know the field and know what are accepted practices
- It is difficult, if not impossible, to detect a well-designed fraud if you do not know what you are looking for



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# COMMON FRAUD INDICATORS

# FRAUD INDICATORS

- Special-handled transactions
- Missing documentation
- Excessive adjustments
- Vendors address the same as an employee
- Goods purchased in excess of needs
- Invoices on plain paper
- Invoices are duplicates

# FRAUD INDICATORS

- Boastful, arrogant attitude
- “Holier than thou” demeanor
- Comments of relationships with management
- Evasiveness or lack of communication
- Way too many questions or requests
- The same question over and over
- “Is there a way to get around this?”

# FRAUD INDICATORS

- Claiming ignorance of rules
- Too much humor during conversations
- Frequent time extension requests
- Resistance to audits, inspections and site visits
- Claiming documents were “lost or destroyed”

# FRAUD INDICATORS

- Missing documents
- Up charging
- No professional license
- Consistently charging for higher work tasks
- Not completing jobs on a timely basis
- Cash flow problems

# FRAUD INDICATORS

- Billings (including progress payments) not adequately supported by project status
- Duplicate or altered invoices used as support payment
- Double billing
- Charging for employees full-time to two or more jobs





# CONCRETE INVOICE

Concrete Construction							<b>Invoice</b>
1015 Garner Hollow Rd					Date		Invoice #
TN 38448					9/5/2019		828
Bill To:							
P.O. Box							
Murfreesboro TN 37133							
				P.O. No.	Terms		Project
					Due on receipt		
Quantity		Description			Rate		Amount
		Labor for work in Memphis TN			225.00		225.00
		2.5 HRS					
		5 HRS					
		7.5					
		PRICE @ 30.00 PER HR					
Thank you for your business						<b>Total</b>	<b>\$225.00</b>

# Red Flag

- No identifying information on the invoice
- No G&G Concrete Construction company listed with Secretary of State
- No company logo
- No city listed in company address
- No phone number listed
- Generic (quicken type invoice)

[illegible]

# RED FLAG-DISCHARGE TRENCH INVOICE

XXX Inc.					Invoice # :	562979
Cleveland, TN 37312					Project :	1684101197
					Project Name:	Cleveland Install
					Invoice Date:	1/30/2019
For Professional Services Rendered through: 2/2/2019						
Scope of Services: Invoice for Activities Associated with CAS Install						
Phase Code / Name			% of Contract	Phase Fee	% Complete	Total Fee Earned
4.4.a.5 CAS WELL TRENCH INSTALL			55.35	\$11,917.00	100.00	\$11,917.00
4.4.a.6 WELL HEAD /VAULT INSTALLATION			30.19	\$6,500.00	100.00	\$6,500.00
4.4.a.7 CAS INLET MANIFOLD INSTALL			3.32	\$714.24	100.00	\$714.24
<del>4.4.a.10 CAS DISCHARGE TRENCH</del>						
<b>INSTALL</b>			<b>11.15</b>	<b>\$2,400.00</b>	<b>100.00</b>	<b>\$2,400.00</b>
			Total Fee:	\$21,531.24		
* 96' @ \$25/ft					Total Fee Earned to Date	\$21,531.24
					Less Previous Billings	\$0.00
					<b>Amount Due This Invoice</b>	<b>\$21,531.24</b>

# UNDERGROUND TRENCHING?



# RED FLAG – COMPUTER COMPLETED CHECKLIST

- Clean and dewater bag filter (checked)
- Clean and dewater Stripperator (checked)
- Remove electric meter (checked)
- Disassemble electric riser and place in CAS (checked)

## Corrective Action System Deactivation Checklist

Facility ID #:	3-040017	CAP approval date:	
Facility name:	Bledsoe Bus Garage	CAS TDEC Tag ID#:	04-2010-111
Facility address:	244 Sequatchie Road, Pikeville	CAS manufacturer ID #:	04-2010-353
		CAS activation date:	8/2/2010
Facility (CAS) telephone #:	423-447-7281	CAS Deactivation date:	12/20/2013
CAC completing checklist:	Environmental		
Person(s) completing checklist	Tim	Time onsite:	0730
		Time offsite:	1030
<b>CAS Deactivation Tasks:</b>			
Clean and dewater bag filter vessel(s)	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
Clean and dewater Stripperator	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
Clean aeration tubes	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
Clean and dewater oil/water separator	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
Clean coalescing packing	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A

Terminate electric account	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
Remove electric meter	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
Disconnect and remove electric line to CAS	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
Disassemble electrical riser and place in CAS	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A



# BAG FILTER HOUSING/AIR STRIPPER



# DISCONNECTED AND INSIDE SYSTEM?



# ADDITIONAL FRAUD AUDITING TOOL

- ACL
  - Audit Command Language
  - UST purchased ACL to assist in detecting fraudulent activity (red flags)
  - Software that detects recurring tasks, extracts that data and performs analyses (audit function)
  - Data is exportable to Excel and further analyzed



# WHAT WE'VE DISCOVERED USING ACL



# DOUBLE BILLING

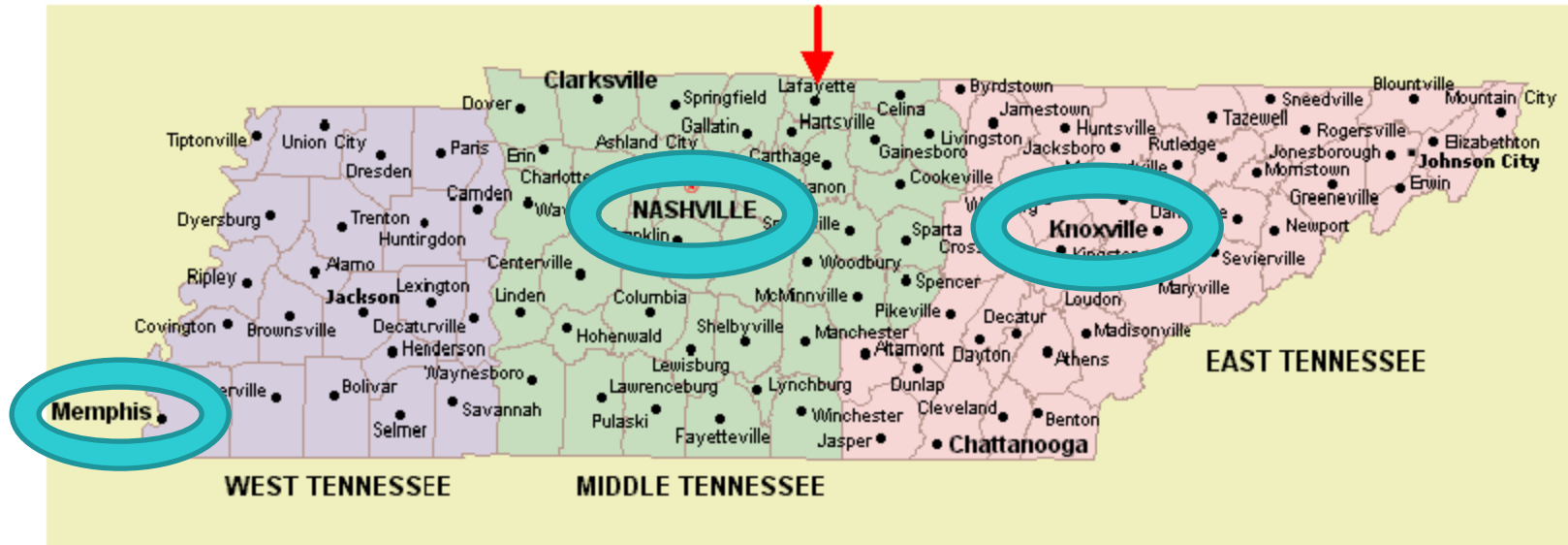
Date	Site	Task	Type	Time	Start Time	End Time	Hrs	Comments
11/5/20	A	Non routine O&M	Travel To		10:00	12:00	2	Double billing 2 hrs
	B	Well Development	Travel From		10:00	12:00	2	
11/7/20	C	Well Abandon	On Site		4:00	6:00	2	Double billing 2 hrs
	D	Water Levels	Travel From		4:00	8:00	4	
11/20/20	E	Routine O&M	On Site		7:00	8:00	11	Double billing 4 hrs
	F	Wellhead Install	Travel From		4:00	8:00	4	
12/4/20	G	GW Sampling	Travel To		6:00	9:00	3	Double billing 2 hrs
	H	Vapor Monitoring	On Site		8:00	10:00	2	
12/9/20	I	Site Recon	On Site		8:30	7:30	11	Double billing 3.5 hrs
	J	Site Recon	On Site		12:00	3:30	3.5	

# CLAIMING IMPROPER TITLES

Employee	Date	Start Time	End Time	Hrs	Hrly Rate	Total	Type	Billable Title	Task
• B Jones	6/3/20	7:00	7:30	0.5	\$80.00	\$40.00	Office	Proj Mgr	CAS Data Review
B Jones	6/10/20	8:00	7:30	0.5	\$80.00	\$40.00	Office	Proj Mgr	CAS Data Review
B Jones	6/17/20	9:00	9:30	0.5	\$45.00	\$22.50	Office	Sr Tech	CAS Data Review
B Jones	6/24/20	9:00	9:30	0.5	\$45.00	\$22.50	Office	Sr Tech	CAS Data Review
B Jones	7/1/20	7:30	8:00	0.5	\$55.00	\$27.50	Office	CAS Spec	CAS Data Review
B Jones	7/8/20	8:30	9:00	0.5	\$55.00	\$27.50	Office	CAS Spec	CAS Data Review
B Jones	7/15/20	8:30	9:00	0.5	\$45.00	\$22.50	Office	Env Spec	CAS Data Review
B Jones	7/22/20	7:00	7:30	0.5	\$45.00	\$22.50	Office	Env Spec	CAS Data Review

# CAC'S IN THREE DIFFERENT PARTS OF THE STATE AT THE SAME TIME

**\*Over \$88,000 in overbilling from one CAC in first quarter of test work**



# CAC'S CLAIMING SITE WORK WHILE ATTENDING UST TRAINING

- Numerous contractors attending training on the same day they claimed to have been working on a CAS site



# EMPLOYEE FRAUD INDICATORS

- Continually circumventing established procedures
- Employees who initiate actions without proper prior approval
- Improper access to data
- Unusual or extravagant behavior or spending
- Unusual or extravagant amount of mail sent to a particular CAC

# EMPLOYEE FRAUD INDICATORS

- Actions that tend to obstruct an audit trail
- Unusual or unauthorized interaction between an employee and CAC





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**FINDING FRAUD**



# WHAT KEEPS US FROM FINDING FRAUD?

- Time
- Inadequate documentation from the CAC
- Lack of knowledge about the real procedures
- Lack of knowledge about fraud
- Fear of making the CAC mad
- Fear of crying wolf

# IMPROVE YOUR CHANCES OF DETECTING FRAUD

- Assume anyone can commit fraud
- Think dirty (think like a crook)
- Go beyond documents to verify that what is recorded really exists
- Look at details
- Consider the reasonableness of entries
- Pay attention to hints

# IMPROVE YOUR CHANCES OF DETECTING FRAUD

- Be inquisitive and persistent
- Beware of excuses such as
  - “it’s an accounting problem”
  - “it was a mistake”
  - “just take it out of the next payment”
- Exercise professional skepticism in performing routine audit functions



# BE SUSPICIOUS OF...

- Poor performance
- Late reporting
- No reporting
- Too many errors in reporting
- Repeated errors in reporting
- Missing documents in reporting
- No original documents – only copies provided

# BE SUSPICIOUS OF...

- Altered documents
- Duplicate documents
- Too many revisions
- Consistent or frequent accounting errors

# FOLLOW YOUR INTUITION

- If a CAC gives you a bad feeling, it's a RED FLAG
- Contact management immediately to discuss your concerns



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# Conclusion

# IMPROVE FRAUD DETERMINATION

- Pay attention to detail of documents
- Investigate exceptions
- Follow through on explanations
- Go beyond documentation
- Use Professional Skepticism
- Assume anyone can commit fraud
- Brainstorm the possibility for fraud
- Follow up on hints and rumors
- Examine unusual transaction
- Consider the reasonableness of work performed



# PROFESSIONAL SKEPTICISM

- Means:
  - Staying alert for evidence that contradicts or brings into question the reliability of documents
  - An attitude of doubt toward a particular object

# CHARACTERISTICS OF PROFESSIONAL SKEPTICISM

- Is the explanation reasonable?
- Verify statements
- Ask about exceptions
- Assess the credibility of individuals and evidence

# THE BEST WAY TO DETER FRAUD?

- Perception/pro active
- The perception that someone is actually looking for fraudulent activity is the best approach



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**Discussion/Questions**

# THANKS!!!

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