



Australian Government
Australian Institute of Criminology

CPA Australia Public Sector Leaders Series

Emerging Trends in Public Sector Fraud

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Outline

Understanding the nature of public sector fraud

- “Dishonestly obtaining a benefit, or causing a loss, by deception or other means” (*Commonwealth Fraud Control Guidelines 2011*)
- Targets, methods and examples of public sector fraud offenders
- Mapping the changing fraud risk environment

Quantifying the extent of fraud

- Historical context of fraud research
- Official fraud statistics and fraud victimisation survey data

The annual AIC survey of Commonwealth agencies

- Online survey methodology and results for 2008-09
- Investigation and prosecution of Commonwealth fraud

Responding to public sector fraud

- Making effective use of fraud prevention principles to address the risks



Understanding the nature of public sector fraud

Targets

- *Revenue* – income tax, GST, customs duties
- *Benefits* – health, social security, child care, education, training
- *Property* – computers, phones, cash, stationery, inventory and stock
- *Entitlements* – expenses, travel allowances, payroll, leave
- *Facilities* – unauthorised use of computers, cars, IP, agency logos

Methods

- Theft, credit card / cabcharge misuse, unauthorised computer access
- Counterfeiting documents, providing false information, identity fraud
- Bribery, corruption, abuse of office, kickbacks, collusion

Offenders

- *Internal fraud* – public servants and contractors
- *External fraud* – members of the public / benefit recipients



Internal fraud examples

Improper disclosure of information

- ATO manager received proceeds from the sale of tax schemes
- Convicted of corruption and disclosure of information
- Sentenced: 3 years, 2 months; non-parole period 2 years

Procurement fraud

- NSW government employee gave a contract to a business for the welding of railway lines
- The employee's accountant ran the company and a relative had previously been a director of the company
- The employee received cash payments of \$1.3m from the company
- His accountant received cash payments of \$1.1 million
- NSW ICAC made a finding of corruption against those involved
- Proceeds of crime order of \$584,000 made against the accountant



Internal fraud examples

Travel allowance fraud

- Federal government grants officer made claims in respect of travel not undertaken, reduced stays, and fabricated expenses
- Received \$6,528 in fares and allowances dishonestly
- Sentenced: 4 months – fully suspended for 3 years

Credit card fraud

- ANAO conducted an audit of 1,866 transactions made with Commonwealth government credit cards
- 46 cases of fraud were found involving 336 transactions worth almost \$2 million
- Most related to purchase of goods for private purposes, or double dipping where payments had been made from other sources as well as using the credit card



Internal fraud examples

Funds transfer fraud

- Financial consultant to Department of Finance transferred \$8.7 million to accounts of private companies in which he held an interest
- He used other people's passwords to gain access to the network
- Sentenced: 7½ years – 3½ years non-parole period

Theft of time / misuse of facilities

- The operator of a website that provided online live sexual content, reported that over a period of two months 1,203 individuals had logged onto her site during business hours from (.gov.au) domain names including state, territory and federal agencies
- She claimed that 4,000 individuals had used government facilities to gain access to her sexually explicit website



External fraud examples

Pharmaceutical benefits fraud

- Pharmacist submitted false repeat prescriptions, claiming for deceased patients, substituting cheaper drugs, using false scripts
- Claimed \$2,160,346 of which \$400,000 was fraudulently obtained
- Sentenced: 4 years with 12 months non-parole; \$400,000 penalty

Social security fraud

- Receipt of social security benefits in 3 false names
- Received \$125,463 over 8 years
- Sentenced: 4 years with 18 months non-parole; reparation of \$120,517

Newstart benefit fraud

- Falsely reporting income and work status to Centrelink
- Received \$81,099 over 9 years and 9 months
- Sentenced: 30 months with 10 months non-parole



External fraud examples

Pension fraud

- Man received age pension payments from Centrelink on behalf of his aged mother he was caring for
- Received almost \$200,000 over 22 years – after she had died
- Sentenced: 2 years 3 months, with 6 months non-parole period

GST fraud

- 4 businesses registered for GST with ATO and bank accounts established using other people's names without their permission
- 33 Business Activity Statements lodged
- Received \$182,281 in GST credits (and \$10,753 attempted)
- Sentenced: 20 months, with 6 months non-parole



Mapping the fraud risk environment

Crime is 'where the money is' (Willie Sutton)

- *Internal fraud* – poor internal controls, poor recruitment practices
- *External fraud* – new benefits, new taxes, procurement, consultants

Misusing new technologies

- e-government risks – online benefit payments, and e-tax (phishing)
- new payment systems – chip/PIN, contactless cards, online banking
- new hardware and software – mobile devices, wireless networks
- misuse of identities and documents used for identification
- unauthorised access to computers and networks

Corruption risks

- Corruption of public servants to gain access to secure systems
- Collusion between criminals and insiders (7% – AIC; 20% – KPMG)



The changing fraud risk environment - opportunities

Data leakage cases (UK)

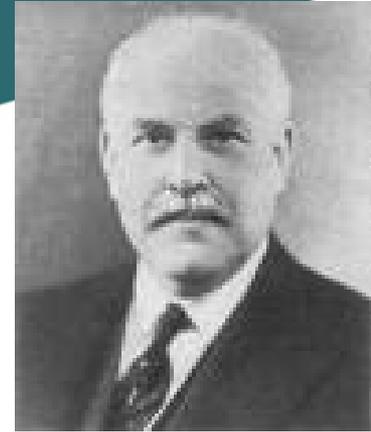
- HM Revenue & Customs – 25 million child benefit records lost
- UK Ministry of Defence – 600,000 personnel details of recruits lost
- Driver & Vehicle Licensing Agency – 3 million learner driver details lost
- National Health Service – 8 Trusts lost 168,000 patient details

Verizon Business Data Breach Investigations Report 2010

- In 2009 – 141 breaches involving 143 million compromised records
- 85% attributable to organised crime groups; 70% from external sources

New government program risks

- *Home insulation scheme* – fraudulent claims and inadequate training
- *Green loans program* – problems of delay and poor training
- *Primary schools building program* – allegations of fiscal wastage
- *Carbon trading scheme* – risks of fraudulent reporting and accounting



Quantifying the extent of fraud

A problem throughout history

- Pepper and tobacco revenue fraud cost £1 million in 1715-1717

Sir Josiah Stamp *“Some Economic Factors in Modern Life”*

“The government are very keen on amassing statistics. They collect them, add them, raise them to the n th power, take the cube root, and prepare wonderful diagrams. But you must never forget that every one of these figures comes in the first instance from the village watchman, who just puts down what he damn pleases” (Stamp 1929, pp.158-9)

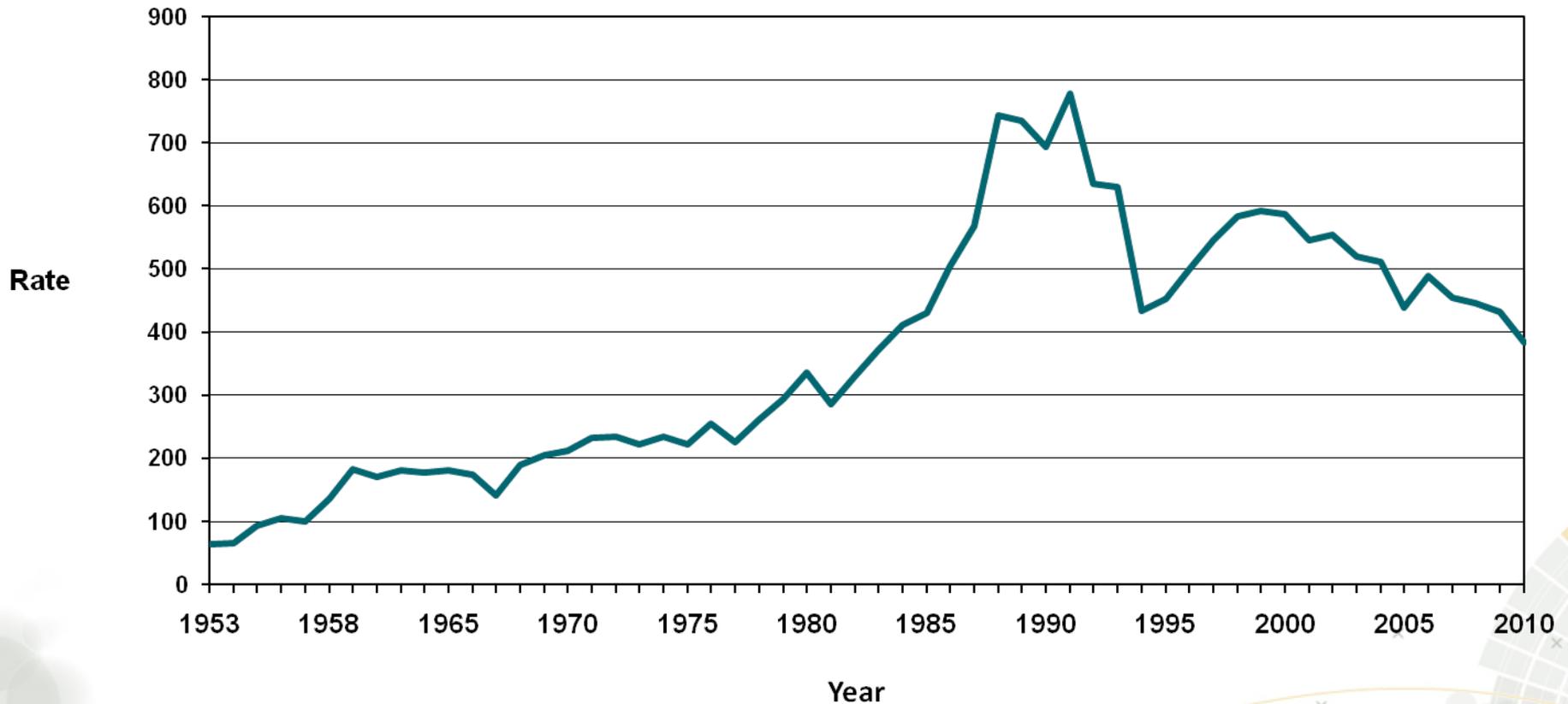
The problem of under-reporting

- KPMG 2008 survey – 63% of cases reported to police; 60% internal investigation; 45% immediate dismissal
- ANAO 2002 survey – 45% allegations referred to police or prosecutors



Official Australian fraud statistics

Rate per 100,000 popn, recorded by Australian police (1953/54 – 2009/10)





Quantifying the extent of fraud

Australian rate of fraud

- 383 deception offences recorded by Australian police / 100,000 population in 2009-10 (85,496 offences – 10% fewer than in 2008-09)

Fraud losses generally

- AIC – Fraud in Australia cost \$8.5 billion in 2005 (\$5.9 billion in 2002)
- ABS – 5% of Australians suffered personal fraud in 2007 (806,000 people >15), total losses \$977 million; \$2,156 per person
- KPMG Fraud Survey (2009) – 420 organisations reported losses of \$301 million from February 2006 to January 2008 (\$1.5 million mean losses per organisation)
- KPMG Fraud Barometer (2010) - \$248m lost in 123 prosecutions (\$25m government losses in 14 cases from July to Dec 2010)



The annual AIC Commonwealth fraud survey

Background

- AGD surveys 1996 to 2006 (for Departmental use only)
- AIC surveys from 2006-7
- ANAO surveys 1999, 2002, 2009 and specific agency audits

2008-09 Annual Survey

- First publicly-released report of survey of 177 Commonwealth agencies
- 149 useable responses analysed
- Separate investigation and prosecution data from AFP and CDPP
- CEOs notified in August, and online responses in by 30 September

Survey and data issues

- High response rate (84%) – mandatory under the *Fraud Control Policy*
- Variable interpretations of the definition of fraud
- Difficulties of time-series analysis



The extent of fraud against the Commonwealth

Fraud victimisation in 2008-09

- 39% experienced an incident in 2008-09 (45% in 2007-08)
- 32% internal fraud; 30% external fraud; 23% both types of fraud
- 3,371 internal fraud incidents
- 797,327 external fraud incidents
- Most fraud against large agencies (13% of small agencies victimised)

Fraud losses in 2008-09

- Total losses \$597.8 million
- Internal fraud losses \$1.8 million
- External fraud \$596 million
- Largest losses due to entitlement fraud (\$489 million)
- 62% of agencies recovered funds - \$92m recovered by 2 agencies



Investigation and prosecution of fraud

Commonwealth agency investigations

- *Internal fraud* – 97.6% investigated within agency
- *External fraud* – 99.7% investigated within agency

Australian Federal Police

- 368 fraud referrals accepted in 2008-09 (396 in 2007-08)
- 47 fraud referrals declined in 2008-09 (34 in 2007-08)
- Losses investigated of \$70m in 2008-09 (\$146m in 2007-08)

Commonwealth DPP

- 5,507 defendants referred to CDPP in 2008-09
- 4,821 prosecuted in 2008-09 in respect of \$79m in fraud
- (4,055 prosecuted in 2007-08 in respect of \$84m in fraud)
- 36 acquittals in 2008-09 (49 acquittals in 2007-08)



Responding to public sector fraud

Fraud prevention entails

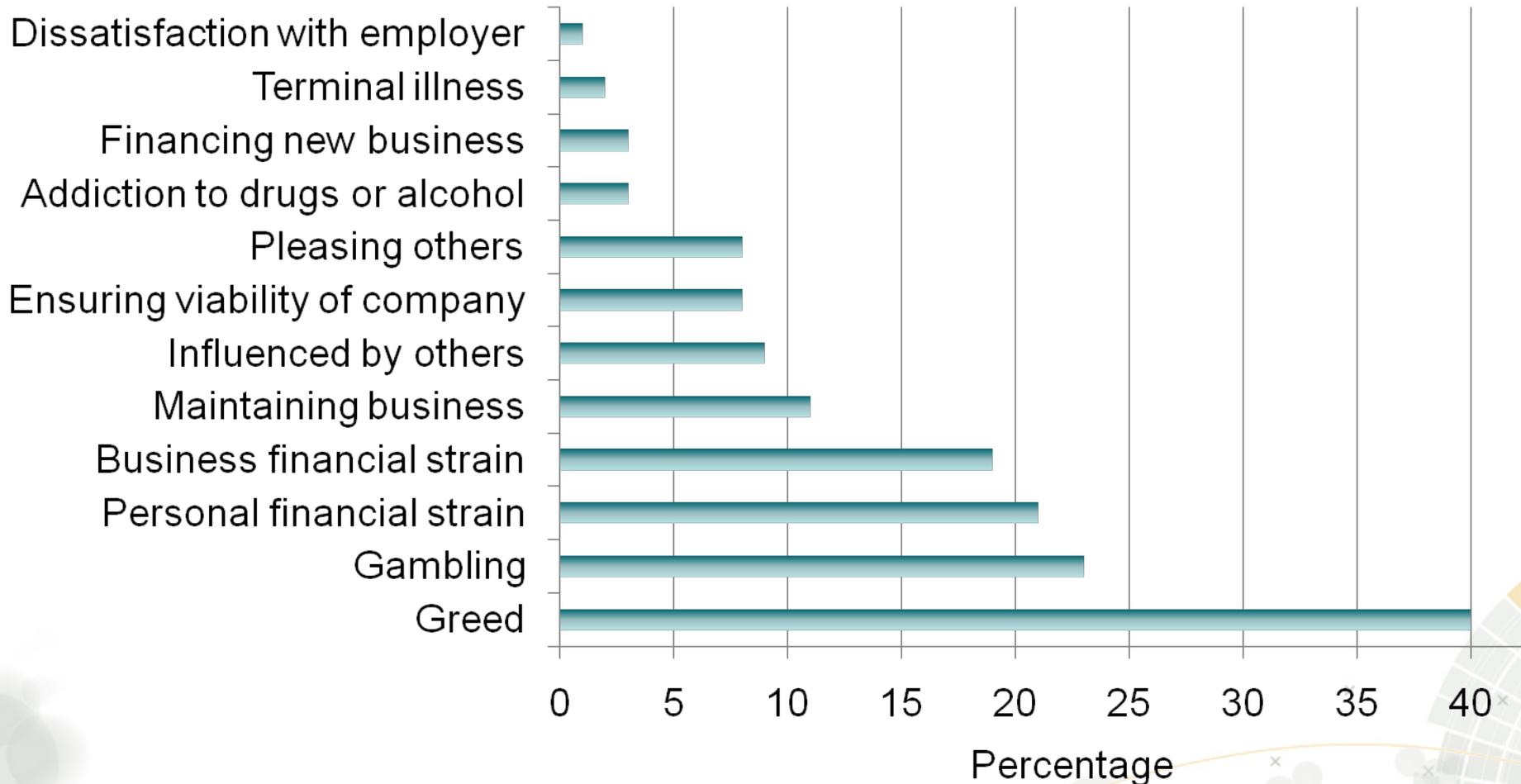
- Increasing the effort required to offend
- Increasing the risk of getting caught
- Reducing the rewards of offending

Matching fraud prevention to risks

- Developing and using effective fraud control guidelines and policies
- Conducting regular risk assessments and reviews of policies
- Personnel monitoring at recruitment and throughout employment
- Improving personal identification of employees
- Monitoring of IT equipment and usage
- Employing targeted sanctions for non-compliance with policies
- Responding to offenders' motivations
- Responding to the techniques of neutralisation



The motivations of fraudsters (AIC/PwC 2003)





Responding to the techniques of neutralisation

Denial of authorship

- Shifting blame onto others, or claiming to have been coerced into offending

Sharing responsibility

- *'They can afford it'; 'fraud is rife' and 'everyone's doing it'*

External influences

- Global financial crisis created pressures that led to the fraud

Denial of injury

- Intended to repay the money so that no-one would have lost out

Denial of illegality

- Conduct was technically not wrong, or they didn't know it was illegal

Denial of culpability

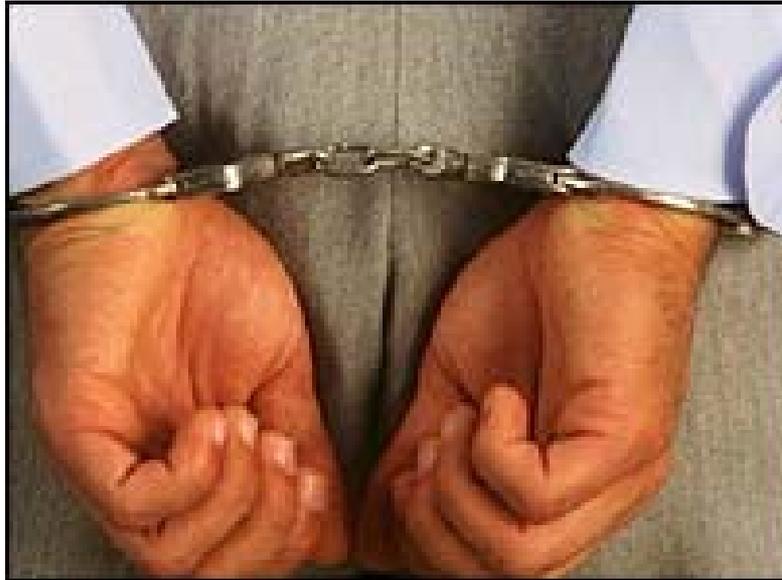
- Offenders were sick or affected by circumstances beyond their control

Appeal to higher loyalties

- Laws can be ignored due to higher loyalties owed to friends and family



Deterrence through prosecution and punishment





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