Alba Advisors, LLC

Fraud and Abuse in Government

South Carolina Association of CPAs
Spring Accounting Conference
Charleston, SC
May 17, 2018

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Can widespread Fraud be stopped?

Politicians

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A career decision

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My political persuasion…

Moderate Conservative

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But "moderation" is no longer allowed

"Moderate is not a stance. It's just an attitude towards life of, like, 'meh,'"

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It could be worse

Philippines' Duterte blasts state auditors, says he wants them kidnapped, tortured

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Hangin' with Mitt

That would be me.

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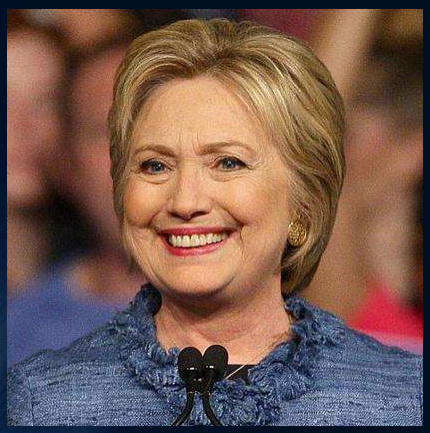
Election 2016



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Two Heartbeats from the Presidency

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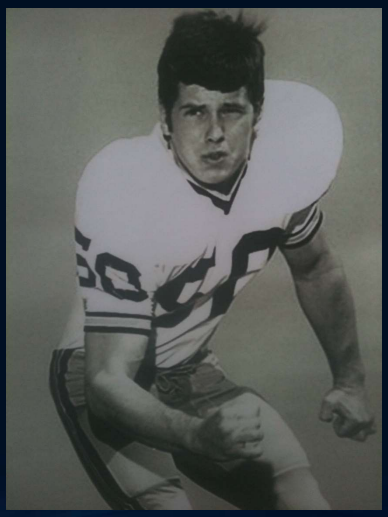
A future accountant?



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The Championship Watch?

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The Ring is the Thing!

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Deceit & Deception Government Style

Can be used for:

- **Fraud**
- **The common good**

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A brief history of Government Fraud

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Political deceit, biblical style (Part 1)

Moses, the people are getting sick eating pork. We don't know why. What should we do?

Tell them, "God says don't eat pork!"
Leviticus 11:1-47

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Political deceit, biblical style (Part2)

Moses, we have no money to raise armies or to pay for public works. How can we get the people to contribute a fair share?

Tell them, "God says you have to tithe!"
Leviticus 27:30-47

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Ronald Reagan

"I have wondered at times what the Ten Commandments would have looked like if Moses had run them through the US Congress."

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Fox News and CNN Agree?

- Patriots: Legends and Lies, (Fox)
- Race for the White House, (CNN)

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Post Civil War

Generally considered to be the most corrupt time in our country's history.

- "Credit Mobiler Scandal" - bribes and kickbacks involving construction of the transcontinental railroad.
- "Whiskey Ring" - conspiracy to under report sales of whiskey, skip tax payments and pocket the difference.

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Will Rogers

"America has the best politicians money can buy."

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What is Fraud?

(To the Government)

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Defining difficult topics…

"I shall not attempt to define the kinds of material I understand to be (pornographic)… but I know it when I see it."

Potter Stewart
US Supreme Court Justice
1964

"Personal doctrine of fairness."

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How is political Fraud different?

"Evidently, what is OK in a campaign promise is considered Fraud for the rest of us."

Wiley Miller
Non Sequitur

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Why isn't government Fraud pursued?

- Lack of resources.
- Tolerated.
- Required.
- Disincentives.

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New plan to reduce cost of healthcare

- Jeff Bezos – Amazon
- Warren Buffett – Berkshire Hathaway
- Jamie Dimon – JP Morgan Chase

Plan to create a new company "free from profit-making incentives and constraints."

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Why isn't government Fraud pursued?

- Lack of resources.
- Tolerated.
- Required.
- Disincentives.
- They don't want to know.
- They like things the way they are.
- Fake news.

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Fake News (Part 1)

April 2017:

North Korea has just launched another missile that lands in the Sea of Japan. The world is on the verge of nuclear war.

ABC devotes 5 minutes of their national news broadcast to cover the source of the soap used in the Trump hotels.
BTW – It came from Canada.

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Fake News

Lawsuits: $550 million, and counting

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Fake News (Part 2)

Hillary Clinton's State Department loses $6 billion.

No! Poor paper work. No money missing.

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Fake News (Part 3)

Russia uses social media to influence the US Presidential election.

Why are we surprised?

The sad part – people view Facebook as a viable news source.

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Winston Churchill

"The best argument against democracy is a five-minute conversation with the average voter."

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Auditing Standards

- The civilian version: *Generally Accepted Auditing Standards*

GAAS

- The government version: *Generally Accepted Government Auditing Standards*

GAGAS ???

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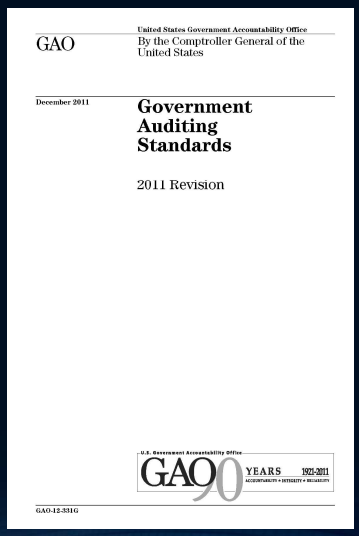
Government Auditing Standards


GAO

United States Government Accountability Office
By the Comptroller General of the United States

December 2011

Government Auditing Standards

2011 Revision

U.S. Government Accountability Office
GAO 90 YEARS 1921-2011 ACCOUNTABILITY • INTEGRITY • RELIABILITY

GAO-12-331G

Currently under revision. Release of update unknown.

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GAGAS

- Independence
- Due care
- Continuing professional education
- Supervision
- Quality control

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GAAS vs GAGAS

GAAS – Internal control deficiencies, increase scope and testing.

GAGAS – Internal control deficiencies, usually fatal.

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Ronald Reagan

"The most terrifying words in the English language are: I'm from the government and I'm here to help."

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Government "Red Tape"

- Dealing with government sector.
- Dealing in the private sector.

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Competing against the private sector

US Postal Service gets whacked with a $1.3 billion loss in the 2nd Qtr.

The USPS posted a "controllable" loss …. (which was) surprising when you consider package volume increased 5%.

Business Insider
May 11, 2018

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Government Accountability Office (GAO)

The U.S. Government Accountability Office (GAO) is an independent, nonpartisan agency that works for Congress. Often called the "congressional watchdog," GAO investigates how the federal government spends taxpayer dollars. The head of GAO, the Comptroller General of the United States, is appointed to a 15-year term by the President from a slate of candidates Congress proposes.

GAO Website

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Finding the story behind the numbers

Adapting the analytical process

- Capital - Money.
- Capacity - Range of performance.
- Conditions - Environmental issues.
- Character - Integrity.

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Capital - Money

- Rule #1 – Follow the money.
- Rule #2 – See rule #1.
- Where did it come from?
- Where is it going?

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The Emergency Stabilization Act - 2008

US Treasury authorized to spend $700 billion to purchase distressed assets from banks.

Government Auditor: "We may never know where all the bailout money went."

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Everett Dirksen

"A billion here, a billion there, pretty soon you're talking about real money."

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Capacity – Range of Performance

- Determine a reasonable range.
- Is something too good to be true?
- Is something too big or too small?

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Conditions – Environmental Issues

- Internal or external factors with extreme influence.
- Circumstances that cause people to act the way they do.
- Incentives. Who wins? Who loses?
- Out of the ordinary occurrences.

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Character - Integrity

- Reputation.
- Do you like them? Do they like you?
- Subtle clues.

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Today

China injects $9.7 billion into Anbang Insurance Group

Move is aimed to contain fallout from former chairman's multibillion dollar fraud.

Bloomberg
Apr 4, 2018

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Today

Prominent Florida eye doctor convicted of Medicare fraud

Collected $105 million between 2008 and 2013. Frequently billed for tests and treatment of prosthetic eyes.

Associated Press
Apr 28, 2017

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Today

Two Goans, living in Dubai, sentenced to 517 years in jail for Ponzi scheme

Express Web Desk
April 11, 2018

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Today

Former Congressman Convicted of Fraud In Texas

Former TX Congressman Steve Stockman found guilty of siphoning off $1.25 million of campaign funds for personal use.

Reuters
April 12, 2018

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Today

Lance Armstrong Settles Federal Fraud Case for $5 million

Defrauded the federal government and US Postal Service by using performance enhancing drugs.

NY Times
April 19, 2018

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Today

CEO who gouged EpiPen Price is daughter of Democratic Senator

Associated Press
Aug 24, 2016

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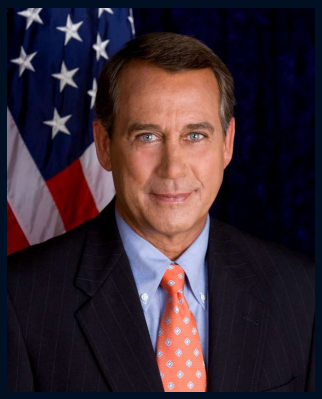
Post government life…

2011
I'm "unalterably opposed" to the legalization of marijuana.



2018
"I'm joining the board of #AcreageHoldings because my thinking on cannabis has evolved."

$$$

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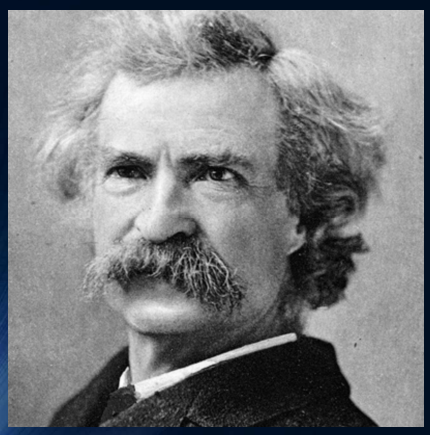
Mark Twain



"Politicians and diapers must be changed often for the same reasons."

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Winston Churchill

"It has been said that democracy is the worst form of government except all the others that have been tried."

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Where do we go from here?

CPA

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