

April 6, 2021

To: All Department of Finance and Administration Employees

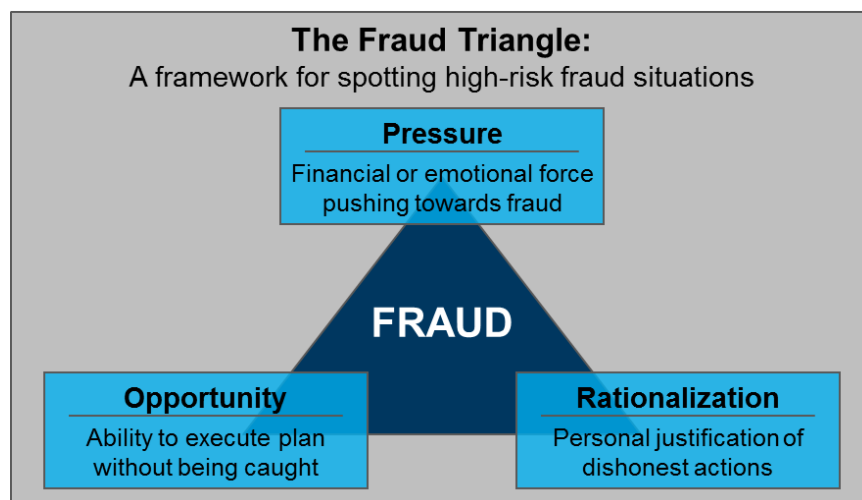
From: Eugene Neubert, Deputy Commissioner

Subject: Employee Responsibility for Identifying Fraud

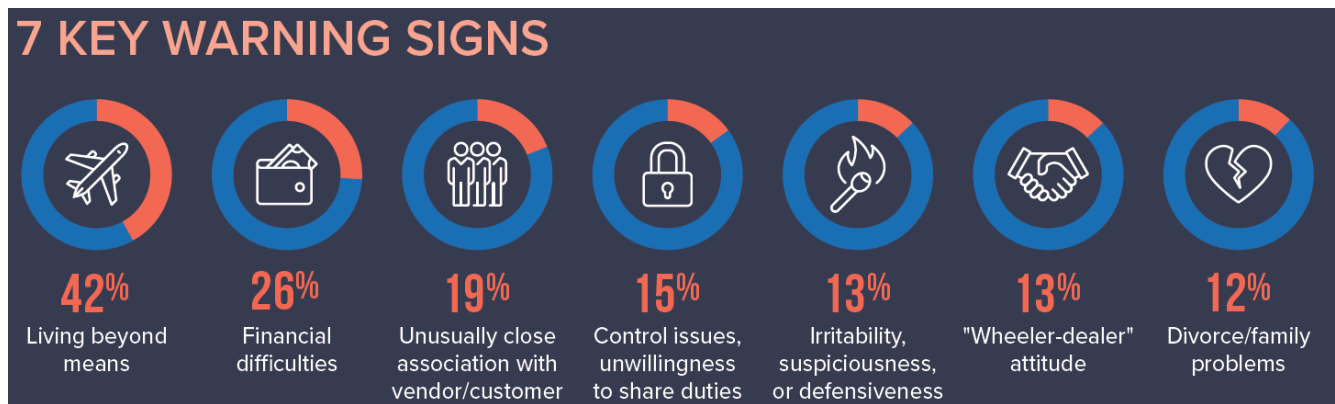
Large frauds have led to the collapse of several multi-billion dollar organizations in recent history. While state government will likely never cease to exist, it is definitely not immune to fraud. Not only do government agencies risk severe financial and reputational damage as a result of fraudulent activity, fraud in the government ultimately costs all taxpayers. Principles of good governance demand that our executive leadership and oversight bodies not only model highly ethical behavior but require it of all employees.

Guidance released by the Government Accountability Office (GAO) includes a section specifically dealing with fraud risk. Principle 8 of the Standards for Internal Control in the Federal Government (Green Book) discusses different types of fraud and provides guidance on identifying and responding to fraud risks. The Green Book can be found online at the following link, <https://www.gao.gov/assets/670/665712.pdf>.

Fraud is generally defined as intentional misrepresentation or deceit to gain something of value. Fraud may include fraudulent financial reporting (intentional misstatements or omissions to deceive financial statement users), misappropriation of assets (theft, embezzlement, fraudulent payments), or corruption (bribery and other illegal acts). All employees should have a basic understanding of the types of fraud that may occur and be aware of the common red flags associated with fraudulent activity. Below is an illustration of the three factors that often lead an individual to commit fraud: pressure, opportunity, and rationalization. While all three factors are typically present, all three may not be simultaneously apparent to co-workers or supervisors. Sometimes one of the below factors can present a large enough risk to warrant reporting.



Included in the Association of Certified Fraud Examiners (ACFE) 2020 Report to the Nations is the following graphic that illustrates common behavioral clues displayed by fraudsters. Living beyond his or her means is the most common characteristic by a sizable margin and has ranked as the #1 red flag in every Report to the Nations since 2008. Of course, the presence of any of these characteristics doesn't automatically mean fraud is being perpetrated, instead these should serve as warning signs that may warrant paying closer attention.



Fraud risk is reduced through policies, procedures, internal controls, and the organizational culture established by management, but our employees are our best chance to detect fraud. If you suspect fraudulent activity is taking or has taken place, you have a responsibility to report it in any of the following ways:

- To your supervisor; supervisors are to then report it immediately to F&A Internal Audit
- Directly to F&A Internal Audit by calling 615-532-7098 or emailing [fa.audit@tn.gov](mailto:fa.audit@tn.gov)
- To the Comptroller's Office using either their online reporting form at the following link, <https://www.comptroller.tn.gov/office-functions/investigations/fraud-waste-and-abuse.html>, or by calling their hotline at 1-800-232-5454, you may remain anonymous using either of the Comptroller's reporting methods

Retaliation for reporting suspected instances of fraud, waste, or abuse is expressly prohibited by state law (T.C.A. 8-50-116). Investigations will be conducted thoroughly and in the most cost-effective and confidential manner possible, given the circumstances of the allegation. Depending on their nature and severity, investigations may be coordinated with, or referred to, other investigative personnel (e.g., Human Resources, State Audit) or to law-enforcement personnel. F&A executive management expects all staff to cooperate fully with any fraud investigation by providing prompt, complete, and accurate information and support.

Thank you for the work you do daily serving our partner agencies and the people of Tennessee.