

Felicity Huffman and Environmental Fraud: The Connection & Tips for Auditors

Felicity Huffman realizes many things in the wake of the college admissions scandal. What she probably doesn't realize is that she is my new poster model for **Environmental Fraud**. Why the connection?



FRAUD is any: 1) intentional deceit – by commission or omission; 2) for any type of gain; 3) at the expense of another. Check, check and check. The Cressey Fraud Triangle theorizes that three elements must be present for fraud to occur: 1) opportunity; 2) incentive; and 3) rationalization. Check, check and check – again.



“Fraud” usually conjures up images of Bernie Madoff, companies exploiting customers’ lack of sophistication to open phony checking accounts, or company executives skimming off cash for fancy cars and vacations. It’s often thought of in the context of money, glitz, and glamor. That’s true enough – but not the whole picture.

What The ??? The wealthy and the famous already had advantages: private schools for their children, access to tutors – and the ability to pay full tuition. What were they thinking? Maybe they weren't thinking. The rationalization was easy (“everybody does it/ I have to do it”). The incentive was to keep up appearances (“My child has to go to USC or Yale – s/he can’t go to Home State University). Full disclosure: I worked my tail off at a State University; it was no joke - and it has done very well by me, thank you! The opportunity appeared in the form of a side door with a red velvet rope, and a cover charge of \$100,000+. Even so, you can lead a child to admission, but you can’t make her/ him graduate - witness the social media videos of one student openly disdaining the whole concept of college.



Environmental Fraud: The connection to environmental fraud is this. The gain doesn’t have to be obvious, or to make sense – to you. It only needs to make sense to the perpetrator. Likewise, you don’t have to identify the victim. Of the 85+ % of applications that were denied admission to USC and Yale, the 40 or 50 who were next in line will never know who they are.

Internal Auditors should realize all the operations, compliance, and [financial and non-financial] reporting obligations that include environmental aspects. Internal Auditors should use environmental specialists throughout the life cycle of the audit, from the risk assessment process, to fraud brainstorming, and as support for audit procedures as appropriate.



Consider the few example scenarios below.



- Could a facility operator falsify or omit data from required inspections, or permit reporting obligations? What incentives could there be to do so (avoidance of fine; planned expansion; pressure to defer costs required to upgrade equipment)? Or to avoid the embarrassment of demonstrating that s/he does not know how to do the job?
- If the environmental coordinator's child plays soccer on a team coached by an environmental contractor, could some extra business or fees be arranged in exchange for a starring role on the team?
- Could an environmental coordinator "recycle" some materials improperly? The incentive could be to avoid paying disposal fees. Or to get bragging rights for the amount of material recycled. Or to get a coveted spot on a panel at an industry conference.



Environmental auditors – the “second line of defense” in the IIA model – should learn fraud concepts. Environmental auditors should think expansively about all the opportunities for environmental fraud. Environmental auditors – whether doing EMS audits, environmental compliance audits, or any type of special audit – should brainstorm possible fraud scenarios with a team. Environmental auditors should conduct at least one test for fraud in every environmental audit.

For more useful blogs, see:

www.douglashileman.com

www.environmentalfraud.com