

AVOIDING FRAUD ON DISASTER CLEAN-UP PROJECTS

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INTRODUCTION

Disaster impacts have been rapidly increasing worldwide during the past century. Natural disasters affecting 100 or more people increased from approximately 100 per year in the late 1960s to a range of 500 to 800 per year in the early 21st century [5]. The reason for this has not been an increase in frequency of natural disasters but simply due to factors such as increasing population, rapid urbanization and migration to coastal and other exposed areas [5]. The large German insurance company, Munich Re has calculated that the cost of major disasters has grown from \$4 billion per year (on an inflation-adjusted dollar basis) in the 1950s to over \$40 billion per year in the late 1990s [5]. Man-made disasters can also have significant impacts such as with Three Mile Island in the U.S. or Chernobyl in the former Soviet Union.

The significant scale of these disasters means that clean-up efforts must also be on a significant scale. These efforts involve large monetary expenditures by private and governmental sources over narrow time periods. Given these factors, fraud with these clean-up projects is and should be a significant concern. Before, during, and after disaster clean-up projects, combating fraud should be given significant attention.

Fraud is distinguished from price gouging. When disasters do strike, individuals and businesses may raise prices on certain commodities and services to account for increased demand. However, this is not fraud in the true sense. Actual fraud depends on subterfuge. An entrepreneur charging higher prices is doing this in the open and those seeking the commodity or service have a choice. Fraud, on disaster clean-up projects, is where funds are expended either partially or wholly based on deceptive practices. Fraud only takes place when four elements are present: (1) fraud perpetrator, (2) little or no chance of detection, (3) fraud opportunity, and (3) something of value whether money or other items.

This paper is written from the perspective of a governmental or business entity that will be hiring outside resources (namely contractors and subcontractors) to carry out the efforts of these disaster clean-up projects. In some cases, the clean-up efforts will be on public land while in other cases they will be on private land or it may be mixed. The oil tanker Exxon Valdez that ran aground in Alaska was a private undertaking that caused an environmental disaster in a public area. A major hurricane may spread destruction over both public as well as private land such as large private forest tree farms or a coastal-based petrochemical plant as an example.

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