

Identifying, Preventing, and Responding to FRAUD



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Presented by

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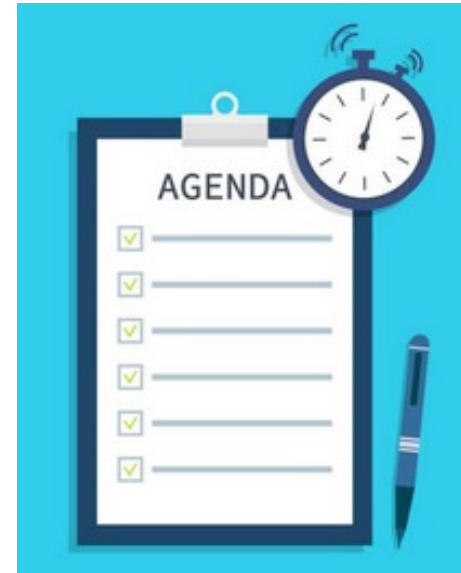
Learning Objectives

- Definition of Fraud
- Types of Fraud
- Fraud Facts
- Fraud in Higher Education
- Preventing Fraud
- Red Flags
- What to do if you suspect fraud



Agenda

- Learning about Fraud
- Case Studies
- Questions
- Quiz



What is Fraud?

- Any intentional or deliberate act to deprive another of property or money by deception or other unfair means.
- Lying for money
- Fraud involves taking something from someone else through deception or concealment.



Types of Fraud

- Internal Fraud

Also referred to as *occupational fraud*

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the organization's resources or assets.

- External Fraud

Dishonest vendors and suppliers

Invoice fraud

Security breaches

Theft of proprietary information

Identity theft

Phishing

Types of Fraud

The Most Common Type of Occupational Fraud:

- Asset Misappropriation



Types of Fraud

Asset Misappropriation: An employee steals or misuses an organization's assets.

Cash thefts

- Skimming – cash is stolen before recording in the books
- Larceny – cash is stolen after recording in the books

Falsifying voids and refunds

Tampering with company checks

Filing fraudulent expense reports

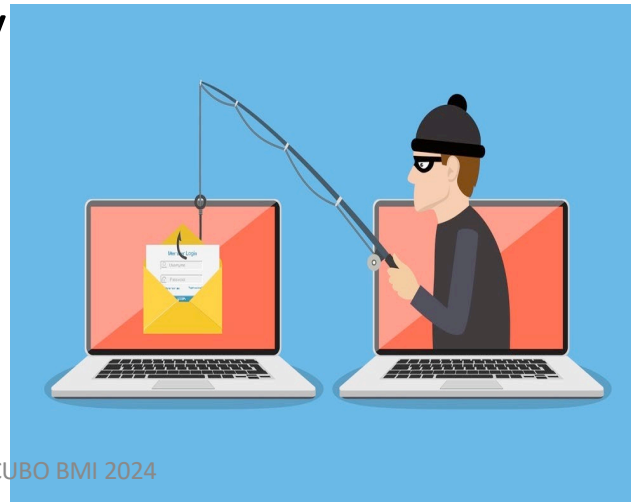
Embezzlement

Stealing inventory and supplies



Types of Fraud – Example of an External Fraud

- Phishing: fake e-mails that impersonate a known business and urgently request you verify your credentials.
- Spear Phishing – targeting specific individuals or employees at a company



Fraud Facts

Organizations lose approximately 5% of their annual revenues to fraud

Median loss: \$117,000 per case

Tips are the most common initial detection method

Median duration of a fraud scheme: 12 months

Fraudsters who had been with their company **LONGER** stole much more

- More than 5 years' tenure \$137,000 median loss
- Less than 5 years' tenure \$90,000 median loss
- More than 10 years' tenure \$250,000 median loss

Fraud Facts

The more victims lose the less likely they are to make a full recovery

A majority of the victims **RECOVERED NOTHING**

- 52% recovered nothing
- 35% made a partial recovery
- 13% recovered all losses

Not all organizations seek to prosecute fraudsters

Top reason for not seeking prosecution is fear of bad publicity

Source: The ACFE's 2022 Report to the Nations



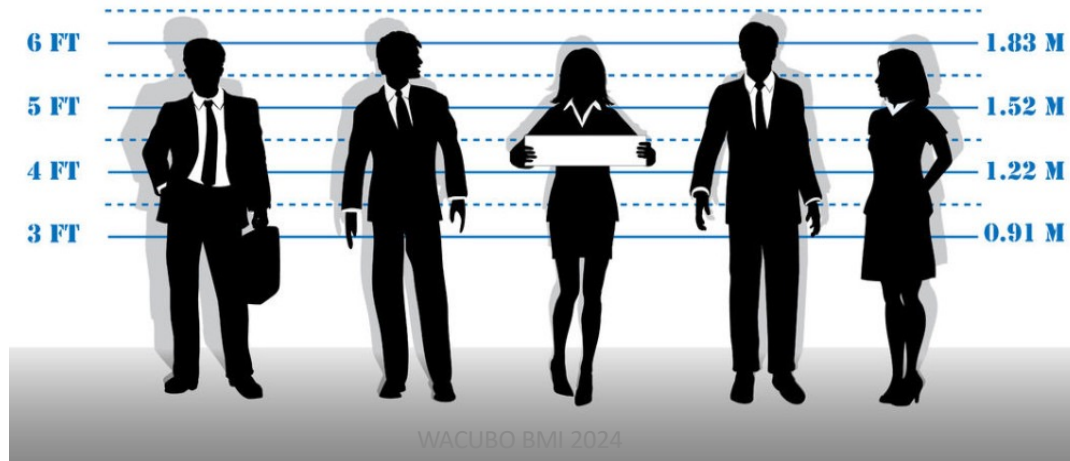
What a Fraudster Looks Like

- Like you and me
- Intelligent
- Egotistical
- Inquisitive/risk taker
- Hard worker/Rule Breaker
- Under stress
- Disgruntled/Complainer



What a Fraudster Looks Like

- Male: U.S. 62%; Global 73%
- Losses caused by men are 25% larger than losses caused by women
- Occupational fraudsters are generally first-time offenders



What Causes People to Commit Fraud?

The Fraud Triangle

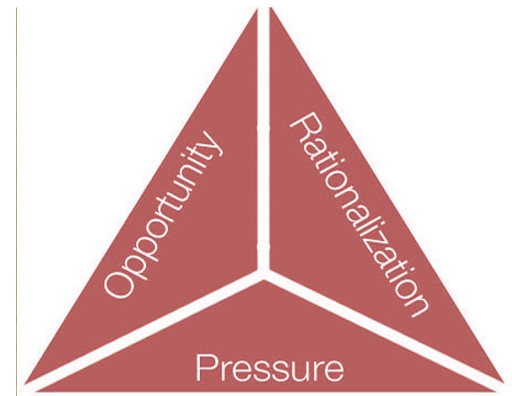
A model for explaining the factors that cause someone to commit occupational fraud



The Fraud Triangle

Opportunity

- Past failure of organization to discipline wrongdoers
- Inadequate supervision
- Lack of or circumvention of internal controls



Internal Controls

- Steps taken to obtain reasonable assurance that objectives are achieved.
- The policies and procedures that help ensure management directives are carried out.

Segregation of duties

Reconciliations

Authorizations and approvals

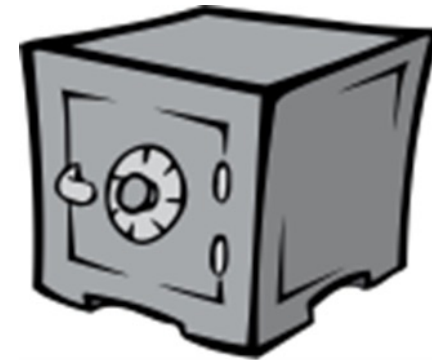
Supporting documentation

Physical safeguards – locks, safes

Passwords to protect computer files

Taking inventory

Audits



Internal Control Weaknesses that Contribute to Fraud

- Lack of Internal Controls
- Override of Existing Controls
- Lack of Management Review
- Poor Tone at the Top
- Lack of Competent Personnel in Oversight Roles
- Lack of Independent Checks/Audits
- Lack of Employee Fraud Education
- Lack of Clear Lines of Authority
- Lack of Reporting Mechanism

Source: The ACFE's 2022 Report to the Nations
WACUBO BMI 2024

Fraud in Higher Education – Common Forms of Fraud in Higher Education

- Entering into agreements with vendors without authorization
- Personal purchases on credit card, especially p-card
- Phishing – fraudulent emails from outside entities
- Fraudulent information on applicant's résumé
- Theft of inventory and supplies
- Theft of cash from deposits
- Invalid workers' comp claims
- Off-campus bank accounts
- Falsifying time reporting



Fraud in Higher Education – Common Forms of Fraud in Higher Education

Academic Fraud

- Personal expenses charged to grant
- Data falsified on research
- Student stipends returned to Principal Investigator
- Class assignments for student athletes completed by staff members
- Grade tampering

Fraud in Higher Education – Some frauds make the news...

Admissions scandal:

- University Scammed of out more than \$1 million
- Coach resigns after 5 days and a few lies
- Engineering professor defrauds federal agencies of \$3 million in research grant money.
- University employees fired following investigation into stolen financial aid
- University employees face fraud charges after allegedly spending \$250,000 of university funds on personal items using a p-card

EUREKA

Ex-University Official Gets Jail Term for Fraud

Humboldt State's former director of university advancement has been sentenced to a year in jail for a string of charges related to fraudulent expenses and lying to officials.

John Sterns was sentenced by Humboldt County Superior Court Judge John T. Feeney on nine counts of forgery, falsifying government records and theft by false pretenses.

During his three years as director of university advancement, Sterns claimed nearly \$50,000 in fraudulent expenses and told the university he raised \$15 million more than he had actually raised.

Case Study - Travel Claim – No free lunch

- Joe attends a conference at a hotel located in another city
- The conference program includes breakfast, lunch, and dinner for some of the days
- After the conference, Joe submits an expense report that includes amounts for breakfast, lunch, and dinner for all of the days
- Expense report was processed without incident
- What is the problem?

Case Study - Travel Claim – No free lunch

Did Joe commit fraud?

What internal controls should be in place to prevent this type of fraud?

- Obtaining copy of conference agenda to determine what meals are included
- Obtain receipts for meals

Case Study - Food Court Cash Caper

Tony, a long-term employee, was lead cashier in the cash room
He often talked about his frequent trips to Las Vegas

Responsibilities included:

- Performing a second count of daily bank deposits
- Recording daily sales information into the general ledger
- He disposed of the original deposit slip, and made new ones with lower amounts and then removed the corresponding amounts in cash from the deposits. An example of skimming.
- He entered the lower amounts in the general ledger

Case Study - Food Court Cash Caper

Fraud Triangle in Action

Opportunity

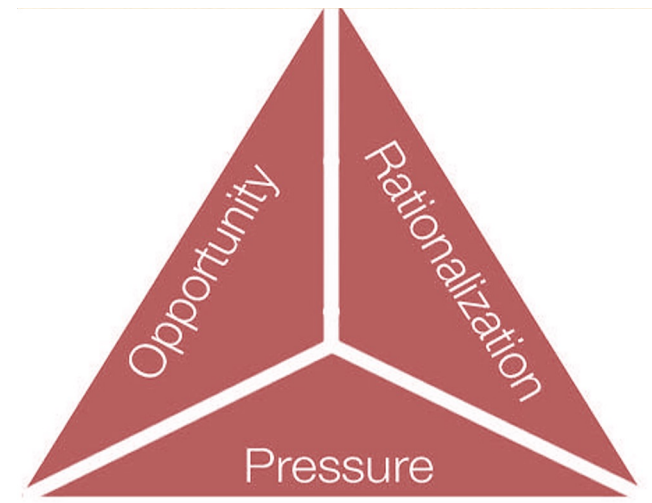
- Lack of segregation of duties
- Lack of reconciliations

Pressure

- Gambling debts

Rationalization

- They won't miss it



Case Study - Food Court Cash Caper

Consequences

- Employee arrested, convicted and made restitution of \$50,000

What internal controls should be in place?

- Reconciliation of sales to deposits
- Segregation of duties
- Cash room no longer has access to GL
- Security cameras

Case Study - Phishing Fraud

Bob receives an email from his supervisor requesting that he purchase iTunes gift cards, “scratch it and take a picture of them and attach it to the email then send it to me here...”

What should Bob do?

Does this seem like a reasonable request from his supervisor?

Case Study – Phishing Fraud

- Red Flags
 - Email address is not a valid campus address
 - Poor grammar
 - Time of day
 - Sense of urgency

Case Study - Phishing Fraud

What to do if you suspect you received a phishing email:

- Do not respond to the email!
- Inform your Information Security Officer (ISO) or equivalent
- Do not open any attachments
- Do not click on any links

Case Study - Student Timesheet

A student worker on a research grant delivered her timesheet for processing after obtaining her supervisor's signature.

See a problem?

Case Study - Student Timesheet

The student falsified her hours after the professor approved the timesheet.

She forged signatures and bypassed the approval process entirely.

An employee questioned the signatures

Consequence to student:

- Expulsion
- Criminal conviction
- Restitution

Case Study - Student Timesheet

What Internal Controls should be in place?:

- Segregation of duties
- Students don't deliver timesheets
- Reconciliations
- Verification of authorized signatures

Fraud Prevention: What Can I Do?

Fraud Prevention Starts with You!



"Are these just guidelines or are they actual new policies?"

Fraud Prevention: What Can I Do?

Ensure proper segregation of responsibilities

- No one person should have control of any process: purchasing, p-card, payroll, HR, cash handling

No password sharing

Reconcile regularly

- Conducted by a person not in the procurement process, if possible

Fraud Prevention: What Can I Do?

Procurement cards

Pros and cons:

- Reduce amount of transactions for accounts payable
- Enable purchases to be made immediately
- Equivalent to giving an employee access to cash

Review statements and receipts thoroughly

- “Accidental” personal purchases
- Personal purchases on receipt that has numerous items
- Ensure purchases are business related

Review limits: single purchase, monthly

Restrict types of allowable purchases through merchant codes

Fraud Prevention: What Can I Do?

Review travel documents, including receipts

- Do not simply sign them electronically and pass them on

Count inventories regularly

- Conduct a count of inventory and compare to inventory amounts in tracking systems

Conduct surprise cash counts

- Stress that it isn't distrust of the employee, but is a routine procedure in cash handling areas

Review approval authority

- Limit the number of individuals with approver or requestor authority
- Ensure only current employees have access

Fraud Red Flags

- Absence of strong code of personal ethics
- Unstable life style; “Wheeler-Dealer” personality
- Brags about past criminal background or friends
- Salary garnishment, calls from creditors or collection agencies
- Expensive lifestyle – cars, jewelry, Vegas weekends
- Living beyond one’s means
- Parking lot test
- **Never takes vacation**



Questions before the quiz?