Identifying, Preventing, and Responding to FRAUD

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Agenda

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

Three Major Types of Occupational Fraud:

- Asset Misappropriation
- Corruption
- Fraudulent statements

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
- Claiming overtime for hours not worked
- Stealing inventory and supplies
- Adding ghost employees to the payroll
Types of Fraud

**Corruption:** schemes in which a fraudster wrongfully uses his influence in a business transaction for the purpose of obtaining a benefit for himself or another person.

- **Conflict of Interest**
  - Purchasing schemes
  - Sales schemes
- **Illegal gratuities**
- **Bribery**
  - Bribes to coaches
  - Invoice kickbacks

**Fraudulent Statements:** schemes involving the intentional misreporting of an organization’s financial information with the intent to mislead others.

- **Creating fictitious revenues or pledges**
  - Ponzi Scheme
- **Liabilities or expenses**
  - Concealing
  - Overstating
  - Understating
Types of 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: $130,000 per case

Tips are the most common initial detection method

Median duration of a fraud scheme: 16 months

Fraudsters who had been with their company LONGER stole twice as much

- More than 5 years’ tenure $200,000 median loss
- Less than 5 years’ tenure $100,00 median loss

Source: The ACFE’s 2018 Report to the Nations
Fraud Facts

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

A majority of the victims RECOVERED NOTHING
- 53% recovered nothing
- 32% made a partial recovery
- 15% 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 2018 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. 58%; Global 67%

Losses caused by men are 75% 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

Pressure/Motive
- Financial need
- A gambling or drug habit
- Revenge
- Personal debt or poor credit
- A significant financial loss
- Peer or family pressure to succeed

Rationalization
- I’m underpaid
- They won’t miss it
- I need it more than they do
- I’ll pay it back
- Other people are doing it
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 2018 Report to the Nations

Fraud in Higher Education – Industry of Victim Organizations

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent of Cases</th>
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<tbody>
<tr>
<td>Banking</td>
<td>10%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9%</td>
</tr>
<tr>
<td>Government</td>
<td>7%</td>
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<tr>
<td>Health Care</td>
<td>5%</td>
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<tr>
<td>Retail</td>
<td>5%</td>
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<tr>
<td>Insurance</td>
<td>4%</td>
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<td><strong>Education</strong></td>
<td><strong>4%</strong></td>
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<tr>
<td>Construction</td>
<td>3%</td>
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<tr>
<td>Energy</td>
<td>3%</td>
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<tr>
<td>Transportation</td>
<td>3%</td>
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<tr>
<td>Food Service</td>
<td>2%</td>
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<tr>
<td>Technology</td>
<td>2%</td>
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<tr>
<td>Religious, Charitable</td>
<td>2%</td>
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<tr>
<td>Professional Services</td>
<td>2%</td>
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<tr>
<td>Arts, Entertainment</td>
<td>2%</td>
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<td>Telecommunications</td>
<td>2%</td>
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<tr>
<td>Real Estate</td>
<td>2%</td>
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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

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

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?

Here’s the email Bob received:

From: xxxxxxx <xxxxxxx@my.com>
Sent: Monday, October 22, 2018 5:57 AM
To: XXXXXXX
Subject: RE[2]: Follow up

Hi XXX, I’m in a meeting right now and that’s why I’m contacting you through here. I should have call you, but phone is not allowed to be use during the meeting. I don’t know when the meeting will be rounding up, And I want you to help me out on something very important right away.

I need you to help me get an iTunes gift card from the store, I will pay back when I get to the office.
I need to send it to someone and it is very important cause I’m still in a meeting and I need to get it sent Asap. I’ll be waiting for a reply.

Thanks

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Best Regards,
xxxxxxx
xxxxxxx@my.com
Case Study - Phishing Fraud

- Let’s take a closer look

From: xxxxxxxx <xxxxxxx@my.com>
Sent: Monday, October 22, 2018 5:57 AM
To: Bob
Subject: Re[2]: Follow up

Hi Bob, I’m in a meeting right now and that’s why I’m contacting you through here. I should have call you, but phone is not allowed to be use during the meeting. I don’t know when the meeting will be rounding up, And I want you to help me out on something very important right away.

- Red Flags
  - Email address is not a valid campus address. Should be xxxx@xxxx.edu
  - Poor grammar
  - Time of day
  - Sense of urgency

- Here’s more:

  I need you to help me get an iTunes gifts card from the store, I will pay back when i get to the office.
  I need to send it to someone and it is very important cause i'm still in a meeting and I need to get it sent Asap. {
  The amount i want is $100 each in three (3) piece so that will make it a total of $300 I'll be paying back to you. I need physical cards which you are going to get from the store.
  When you get them, just scratch it and take a picture of them and attach it to the email then send it to me here ok. I'll be waiting for a reply.

  Thanks
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
- Served jail time

What Internal Controls should be in place?:
- Segregation of duties
- Students don’t deliver timesheets
- Reconciliations
- Verification of authorized signatures
Case Study - Admissions

Bribery

Cheating on standardized tests

Student-athlete recruitment scam

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Case Study - Admissions

Standardized test cheating
1. Parents paid money into Rick Singer's foundation.
2. The foundation paid an administrator of a school whose site could be used for the test.
3. The foundation also paid for someone to either take the test or correct the student's answers.
4. The administrator of the school then mailed the tests to the ACT or SAT offices.
Case Study - Admissions

What Internal Controls should be in place?
The person who recommends the admission should verify the talent, and then a supervisor must approve it and send it on for a third-level review.

All recruited non-scholarship athletes be required to participate in the sport for at least a year and be monitored for compliance.

Document all contacts between athletics personnel and those at higher risk of inappropriate influence, such as donors or admissions consultants, and review any donation to see whether it was made in connection with any non-scholarship recruited athlete.

Regular review of the athletic department’s slots to make sure they don’t exceed the number of student-athletes needed to fill rosters.

Per UC audit of admissions. LA Times 6/20/19
Fraud Prevention: What Can I Do?

Fraud Prevention Starts with You!

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

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

Rationalization of contradictory or irrational behavior
Absence of strong code of personal ethics
Unstable life style; “Wheeler-Dealer” personality
Brag 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

What to Do if You Suspect Fraud

Inform your supervisor
Inform Internal Audit
Inform campus police
If part of a state system, you may be able to file a whistleblower complaint with your state’s auditor or attorney general.
## Conclusion

Everyone in the organization is responsible for fighting fraud.
Be alert to potential fraud.
Report any suspicions to your organization.

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### Any questions before we begin the quiz?