Fraud Prevention Training
The Prevention and Detection of Fraud Begins with You

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http://www.journalofaccountancy.com/Multimedia/FraudFightingTips.htm
Fraud Prevention:
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Fraud Happens…
WHAT YOU WILL LEARN AND TAKE AWAY

- **Fraud Case Studies**
  - Four comprehensive fraud case studies that highlight some of the common fraud schemes

- **Red Flags and Controls**
  - How to prevent fraud or determine if fraud may be occurring

- **Who Commits Fraud?**
  - How to spot behavior patterns and changes in lifestyles that might indicate social pressure to commit fraud
2010 Report to the Nations on Occupational Fraud & Abuse

Association of Certified Fraud Examiners

Estimates $2.9 Trillion annually in global losses due to fraud (5% of Gross World Product)
In 2010, 15% of all reported fraud cases occurred in the government and higher education sectors with a median loss per case of $81,000 and $71,000.
In 2010 over 55% of fraud cases were discovered by tips or during routine reviews by management.

You are Angelo State’s greatest resource!
FRAUD’S THREE FACTORS

- Donald Cressey’s Fraud Triangle

Opportunity

Pressure / Incentive

Rationalization
Pressures / Incentives:
- **Non-sharable** financial pressure
- A situation that is so insurmountable the person cannot see any other way out
- Family pressures
- Insatiable desire for financial gain
- **Pressure to meet institutional goals**
Rationalization:

- A way to justify in the person’s consciousness that the act of fraud is not so bad
- Common beliefs:
  - Person is owed this money
  - Just borrowing until they are able to pay it back
  - Everyone else is doing it
TYPES OF FRAUD SCHEMES DISCUSSED

- Conflicts of Interest
  - Purchasing Schemes / Turnaround Sales
- Bribery & Incentives
  - Kickbacks
- Billing Schemes
  - Shell Companies
  - Non-Accomplice Vendors / Personal Purchases
- Expense Reimbursements
  - Fictitious Expenses
  - Multiple Reimbursements
Case Studies

Case Study 1
Raider Red
TTU

Case Study 2
Roscoe
ASU

Case Study 3
Will Rogers
TTU

Case Study 4
Masked Rider
HSC
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Case Study 1

Raider Red
- Pressures
- Opportunities
- Rationalization
Case Study 1

Raider Red

- Pressure
  - House is scheduled to foreclose
- Opportunity
  - Had control over bid, procurement, and approval
- Rationalization
  - Planned to borrow enough to save his home
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Case Study 1

Raider Red

- Purchasing agent for residence halls
- Set up a shell company
- Sets bid specifications so his shell company is the only vendor able to bid on the RFP
- Runs fake invoices through accounts payable
- Personally presents the checks to the vendors
- No standardized conflicts of interest disclosure process
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Asset Misappropriation

- Billing Schemes
  - *Shell Companies*

- What to Look For:
  - Parties who submit invoices regularly slightly below bid limits
  - Over-concerned or interested parties
  - Parties who try to “rush” the procurement or payables process
  - Parties who wish to remain the sole source of contact between the vendor and University
  - Lack of vendor information on file, missing phone number or phone number not in service
  - *P.O. Box addresses and no physical address*
Asset Misappropriation

- **What to Monitor:**
  - Monitoring Vendor Payments
    - Monitor for multiple payments across several invoices exceeding bid and purchasing limits within the fiscal year
    - Monitor for individual payments just below bid and purchasing limits
  - Invoices
    - Consecutive invoice numbers
    - Generic invoices
  - “Smell Test”
    - Does something just ‘seem off’? Does it warrant more questions to ensure you have all the information you need?
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Conflicts of Interest

- Purchasing Schemes / Turnaround Sales

- What to Look For:
  - Tips and Complaints
  - Favorable Treatment of a Certain Vendor

- What to Monitor:
  - Conflict of Interest Disclosures
  - Procurement Process Violations
    - POs after the fact
    - No segregation—one person makes all the decisions
    - Other possible vendors not given appropriate consideration
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Case Study 2

Roscoe
- Pressures
- Opportunities
- Rationalization
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Case Study 2

Roscoe
- Pressures
  - Gambling addiction
- Opportunities
  - A lack of review of purchasing and inventory control
- Rationalization
  - If no one is looking...so what?
Case Study 2

Roscoe

- Always has an office full of IT equipment
- Approves all IT vendors and purchase orders
- No one reviews or monitors payments to vendors
- Vendors receive contracts without using the bidding processes
- Receives kickbacks
- Purchases ASU equipment and sells it on the side, keeping the cash
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Bribery and Incentives

- Kickbacks
- Most bribery schemes begin with gifts and favors
- Personalities to look for:
  - The Big Spender
  - The Gift Taker
  - The “Odd Couple”
  - The Rule Breaker
  - The Complainer
  - Genuine Need
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Bribery and Incentives

- What to Monitor:
  - Favorable Treatment of a Certain Vendor
  - Market Value of Products Purchased
  - Higher than Expected Volume of Purchases from Particular Vendors.
  - Unnecessary Purchases
10 Minute Break
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Case Study 3

Will Rogers
- Pressures
- Opportunities
- Rationalization
Case Study 3

Will Rogers

- Pressures
  - Spouse died 2 years ago
  - Single parent
  - Lack of insurance settlement

- Opportunities
  - Trusted Employee

- Rationalization
  - The University just doesn’t pay enough to cover all the bills
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Case Study 3

Will Rogers

- Vendor is grossly overcharging the college for copy cartridges
- Processing the purchases on his procurement card
- Has the Chair’s Banner username and password to approve all purchases
- Purchases a large number of cartridges at one time and returns a few for a cash refund
Billing Schemes

- Non-Accomplice Vendors/Personal Purchase
  - (aka: Vendor Pay and Return Schemes)

- What to Look For:
  - Over-purchasing, purchasing a larger number of items than what appears to be necessary.
  - Unusually high number of P-Card transactions to local stores that provide refunds.
  - Duplicate purchases on P-Cards on the same approximate date, time, and amount.
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Billing Schemes

- **What to Monitor:**
  - *Pay Attention to P-Cards*
    - P-Card sharing
    - P-Card log
  - *Electronic Approvals*
    - **DO NOT** share your **Technology Account username and password** with **ANYONE**.
    - **DO NOT** share your **Banner user name and password** with **ANYONE**.
    - Dishonest individuals will use this to their advantage to approve inappropriate purchases.
    - By sharing your credentials, you will be held personally liable for all activities performed under your credentials.
Case Study 4

**Masked Rider**
- Pressures
- Opportunities
- Rationalization
Case Study 4

Masked Rider
- Pressures
  - Philanthropist
  - World renowned researcher
- Opportunities
  - Reputation
  - Review of documentation
- Rationalization
  - Why? Because she can…
Case Study 4

**Masked Rider**

- Inflates the expense amount on her travel voucher
- Submits fraudulent reimbursements on grant and research accounts
- Purchases two sets of airline tickets; a full fare ticket and an accumulated airline miles ticket
- Travel department does not require detailed expense information
- Research & Grants Accounting is not reviewing expenditures
Expense Reimbursement

- Mischaracterized Expense Reimbursements
- Fictitious Expense Reimbursements
- Overstated Expense Reimbursements
  - Altered Receipts
  - Multiple Reimbursements
Expense Reimbursement

- Detailed expense reports should require the following information:
  - Original receipts or other supporting documentation
  - Explanation of the expense including specific business purpose
  - Date expense occurred
  - Place of expenditure
  - Amount
Expense Reimbursement

- A consistent lack of any of this information is a good indication that fraud or abuse may be occurring. Look for:
  - Fuzzy support / details
  - Altered receipts
  - Photocopies often submitted in place of originals
  - Generic receipts providing very little information
  - Missing receipts
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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 your general ledger accounts monthly**
  - Conducted by a person not in the procurement process, if possible
  - Implement a secondary review of reconciliation

- **Review procurement card statements, including receipts**
  - Do not simply sign them and pass them through

- **Review Approval Authorities**
  - Limit the number of individuals with authority to approve purchases
  - Ensure only current employees have access
  - Conduct the review no less than annually
What Can I Do?

- **Review travel documents, including receipts**
  - Do not simply sign them 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 a distrust of the employee, but is a routine responsibility in cash handling areas

- **ASK QUESTIONS**
  - No one has unquestioned authority to do as they wish

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5 Minute Break
Who Commits Fraud?

Everyday people commit fraud given situational pressures.

The characteristics of a fraudster
Who Commits Fraud?

1. Unusually high personal debts
   - Debts could be caused by family crisis or hardship
   - Overspending
   - Living beyond one’s means
   - Financial mismanagement
   - Severe personal financial losses
Who Commits Fraud?

2. Excessive gambling, alcohol, or drug problems

- Addictive behaviors and out of control spending leads to financial pressures
Who Commits Fraud?

3. Undue family, institutional, and peer pressure to succeed

- High expectations by family or close friends that pressure the individual to perform beyond expectations
- Pressure from within the institution to further institutional goals. “End justifies the means.”
Who Commits Fraud?

4. Dissatisfaction with job, feeling underpaid, or not recognized
   - Feeling that the individual’s effort and loyalty to the University is not being recognized or rewarded
   - Compensation is not equitable to the performance of the individual
   - Feeling that the individual is being held back or cannot get ahead
Who Commits Fraud?

5. Overwhelming desire for personal gain

- Another addictive behavior that leads to the individual to try, by any means necessary, to achieve professional and financial success

- The competitive, overachiever personality
WHO IS A FRAUDSTER?

Who Commits Fraud?

6. Belief that job is in jeopardy

- Faced with the loss of job and financial stability, the individual uses other means to supplement the perceived loss of financial security

http://cohort11.americanobserver.net/latoyaegwuekwe/multimediafinal.html
Who Commits Fraud?

7. Close associations with suppliers or customers
   - The individual befriends suppliers and customers to create a financially beneficial relationship leading to kickbacks, bribery, and incentives
WHO IS A FRAUDSTER?

Who Commits Fraud?

8. Lack of personal stability
   - Frequent changes in job, residence, etc.
   - The free-floater who has little concern for the longevity, stability, or commitment to the employer
Who Commits Fraud?

9. Intellectual challenge to beat the system

- The thrill-seeker
- Commits fraud “because I can”
- Attempts to commit fraudulent acts to prove that the individual has the ability to outsmart the control environment
Who Commits Fraud?

10. Not taking vacations or sick time

- The Employee of the Month
- Committing a fraudulent act becomes addictive and so time consuming that missing time at work could lead to the detection of the fraud
PRESENTATION RESOURCES AND WORKS CITED

Sources Used:

If You Suspect Fraud:

- You Can:
  - Refer to the Texas Tech University System or the Angelo State University Fraud Policies
  - Contact the Office of Audit Services by phone
    - ASU: 942-2261 or TTUS: 806-742-3220
  - Report your suspicions anonymously at
    - http://www.ethicspoint.com
PRESENTATION RESOURCES AND WORKS CITED

Additional Resources:

- Risk & Controls Workshop
  - Contact Emily Knopp at emily.knopp@angelo.edu
  - Visit our websites at:
    - http://www.angelo.edu/services/audit/
    - http://www.texastech.edu/audit/index.php
- Regents’ Rule 03.01 – Ethics Policy
  - www.depts.ttu.edu/oppol/Chapter03.pdf
- Regents’ Rule 07.03 – Ethics Policy
  - www.depts.ttu.edu/oppol/Chapter07.pdf
FRAUD PREVENTION

It starts with you!

ASU