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

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Fraud Prevention:
The Prevention and Detection of Fraud Begins with You
What you will take away with you:

- Glossary of Fraud Terms
  - Details of various fraud schemes and how they occur

- 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
FRAUD FACTS

Fraud Facts:
- In 2008, 20% of all reported fraud cases occurred in the government and higher education sectors with a median loss per case of $75,000.
Fraud Facts:

- In 2008 over 65% of fraud cases were discovered by tips or by an employee accidentally stumbling upon them during the course of their job duties.
- You are Angelo State’s greatest resource!
FRAUD’S THREE FACTORS

Fraud Factors:
- Donald Cressey’s Fraud Triangle

Opportunity

Pressure / Incentive
Rationalization
FRAUD’S THREE FACTORS

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.
FRAUD’S THREE FACTORS

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
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The Fraud Schemes of our Four Case Studies
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
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Case Studies

- Full Case Studies and Presentation Materials Available at http://www.texastech.edu/audit/

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
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
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:
  - *Comparison of Vendor to Employee Addresses*
    - If employee or related parties are used as owners of vendors, then the business address of the vendor may match that of the employee. Also, look for post office box addresses for vendors.
  - *Obtain Adequate Vendor Information*
    - Tax ID’s, information about officers, directors, and owners.
    - Copies of Doing Business As (DBAs)
  - *TINs Matching*
    - Match Tax Identification Numbers to employee TINs
  - *Monitoring Vendor Payments*
    - Monitor for payments exceeding bid and purchasing limits
    - Monitor for payments just below bid and purchasing limits
  - *Invoices*
    - Consecutive invoice numbers
    - Generic invoices
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
  - Comparison of Vendor to Employee Addresses
  - Comparison of Vendor TINs to Employee TINs
Case Study 2

Roscoe
- Pressures
- Opportunities
- Rationalization
Case Study 2

**Roscoe**
- Pressures
  - Gambling addiction
- Opportunities
  - A lack of review of purchasing and inventory control
- Rationalization
  - Everyone is making money on the side
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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
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
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Case Study 3

Will Rogers
- Pressures
- Opportunities
- Rationalization
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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.
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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
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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
10 Minute Break

And now a short video
Who Commits Fraud?

Everyday people commit fraud given situational pressures.

The characteristics of a fraudster
WHO IS 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 IS A FRAUDSTER?

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

Rationalization

Opportunity

Pressure / Incentive
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
Sources Used:

- 2008 ACFE Report to the Nation on Occupational Fraud & Abuse, Association of Certified Fraud Examiners.  
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 on the Texas Tech Compliance Line
    http://www.ethicspoint.com
Additional Resources:

- Cover your Assets: Fraud and the Control Environment
  - 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 07.03 – Ethics Policy
  - www.depts.ttu.edu/oppol/Chapter07.pdf
FRAUD PREVENTION

It starts with you!

ASU