

Objectives

At the end of this session, you will be able to:

- Understand the latest fraud risks affecting Higher Education Institutions
- Be aware of the impact fraud has on your Institution
- Identify methods that will your Institution help prevent and detect fraud



2016 Global Fraud Study

Association of Certified Fraud Examiners (ACFE)'s Report to the Nations on Occupational Fraud and Abuse

- Free resource to research your Institution's likely risks given by industry and size; 2016 version available at <http://www.acfe.com/rtnn2016/docs/2016-report-to-the-nations.pdf>



Fraud Triangle – 3 Components



1.) **Pressure** – What motivates the individual to commit the crime in the first place

2.) **Opportunity** – The method by which the crime can be committed

3.) **Rationalize** – How the individual justifies the crime to themselves

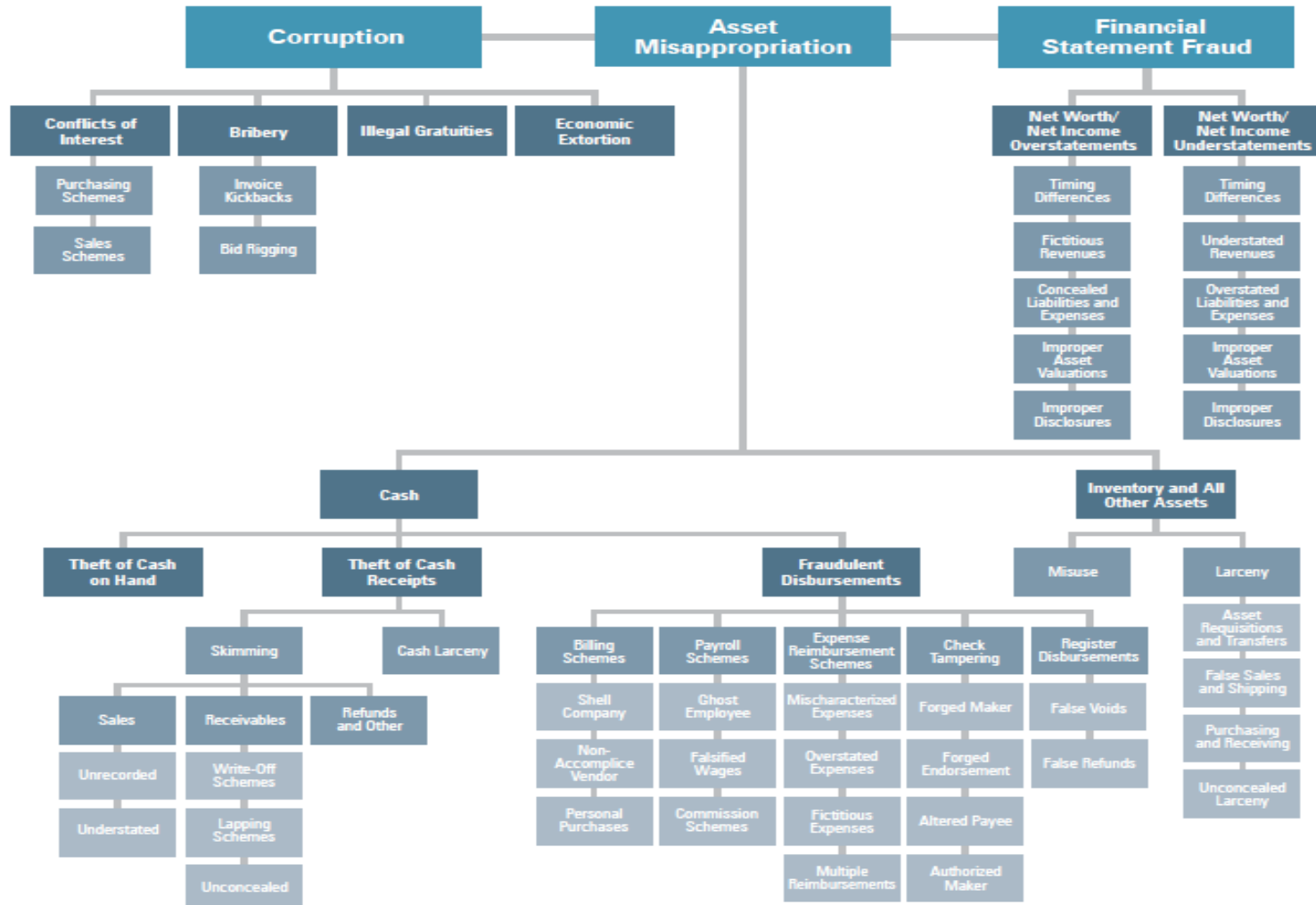
Occupational Fraud

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

3 Main Categories of Occupational Fraud

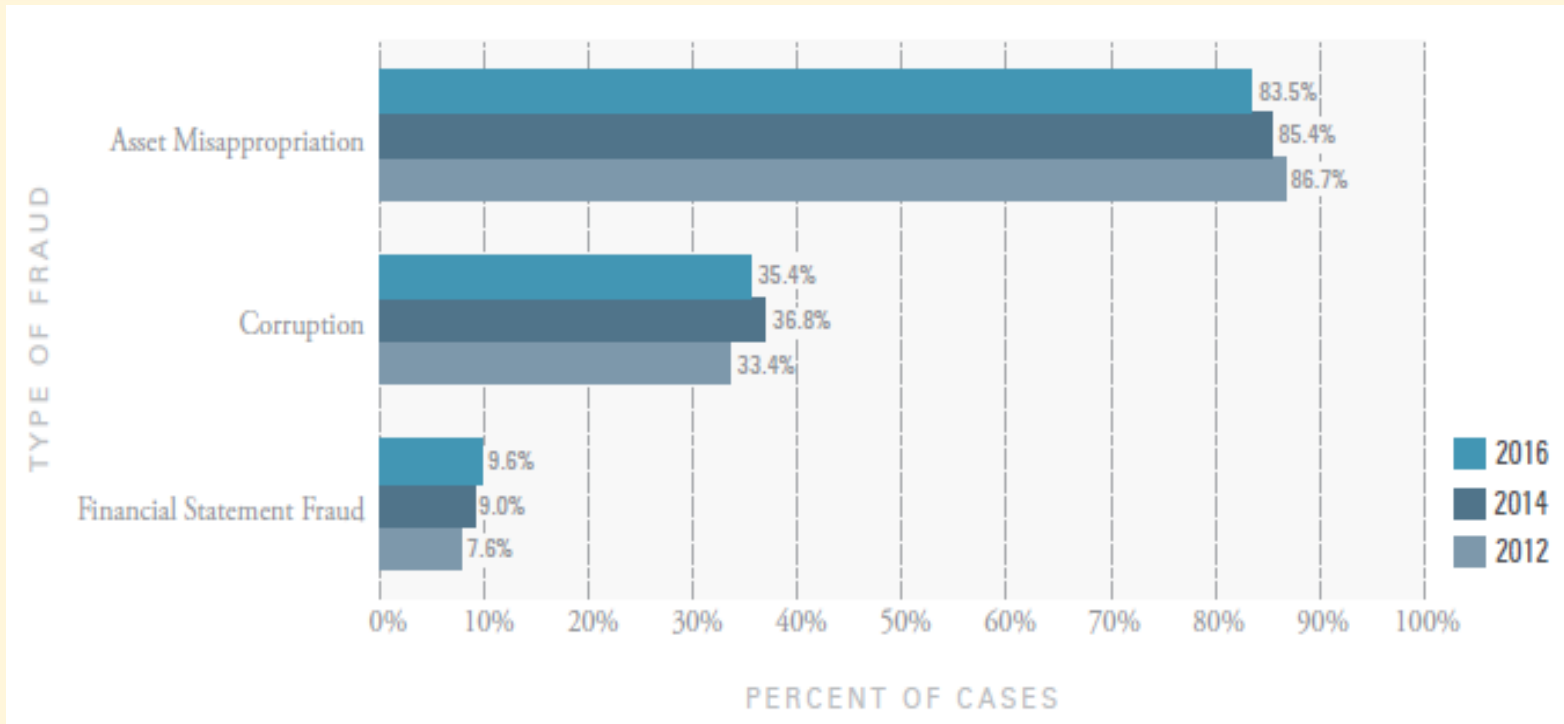
- ***Corruption schemes*** (i.e. schemes involving bribery or conflicts of interest)
- ***Financial statement fraud schemes*** (i.e. recording fictitious revenues, understating reported expenses)
- ***Asset misappropriation schemes*** (i.e. theft of company cash, false billing schedule, false or inflated expense reports)

Occupational Fraud Tree



Source – ACFE’s 2016 Report to the Nations on Occupational Fraud and Abuse

How Occupational Fraud is Committed



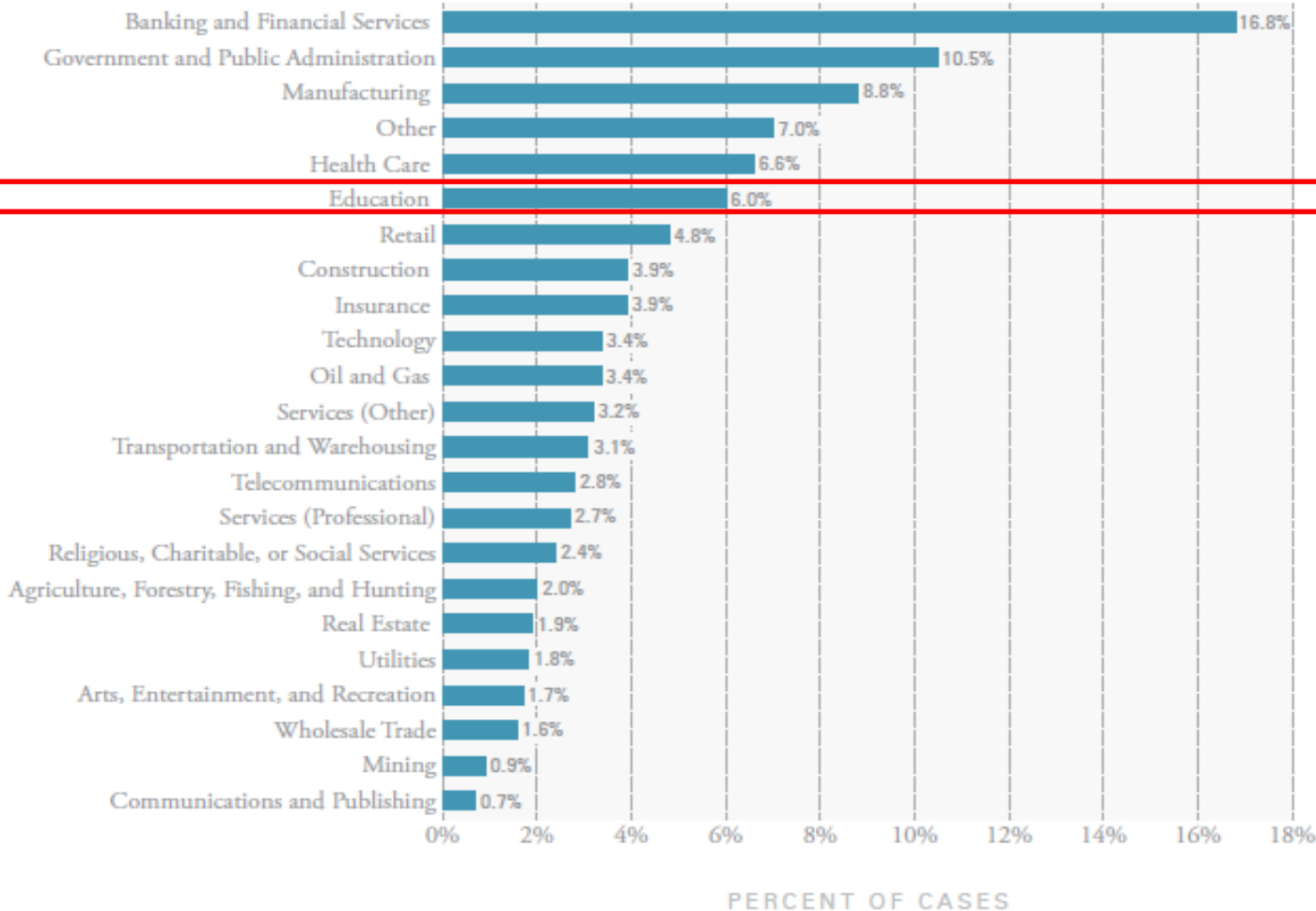
Source – ACFE's 2016 Report to the Nations on Occupational Fraud and Abuse

- Asset misappropriation makes up over 83% of all cases reported
- Average median losses by category:
 - Asset misappropriation = \$125,000
 - Corruption = \$200,000
 - Financial Statement Fraud = \$975,000

Fraud Financial Loss vs. Reputational Damage

- Generally, the majority of fraud financial losses are covered under fidelity insurance policies (*less deductibles*)
- The significant risk to Fraud in Higher Education is the **Reputational Damage**
 - Institution receiving negative publicity (i.e. news broadcasts, newspapers, rating agencies, etc.)
 - Potential drop in future enrollment
 - Potential drop in future advancement/development contributions
 - Potential drop in future research grant funding

Reported Fraud Cases by Industry



2016 ACFE Study

– Education Industry

- 6th out of 23
- 6.0%

2012 ACFE Study

– Education Industry

- 5th out of 23
- 6.4%

Source – ACFE’s 2016 Report to the Nations on Occupational Fraud and Abuse

Common Schemes by Industry

Industry/Scheme	Banking and Financial Services	Government and Public Administration	Manufacturing	Health Care	Education	Retail	Construction	Insurance	Oil and Gas	Technology	Services (Other)	Transportation and Warehousing	Telecommunications	Services (Professional)	Religious, Charitable, or Social Services
Cases	368	229	192	144	132	104	86	85	74	74	70	68	62	60	52
Billing	9.5%	25.3%	32.8%	31.3%	34.1%	5.4%	27.9%	17.6%	20.3%	29.7%	22.9%	22.1%	12.9%	26.7%	25.0%
Cash Larceny	11.1%	7.9%	5.2%	9.7%	13.6%	2.5%	8.1%	4.7%	4.1%	5.4%	15.7%	4.4%	1.6%	13.3%	9.6%
Cash on Hand	17.9%	10.5%	8.3%	11.1%	17.4%	1.5%	7.0%	4.7%	9.5%	8.1%	22.9%	5.9%	4.8%	20.0%	13.5%
Check Tampering	9.5%	9.2%	13.5%	14.6%	7.6%	9.6%	10.5%	17.6%	4.1%	5.4%	18.6%	10.3%	6.5%	31.7%	25.0%
Corruption	37.5%	38.4%	48.4%	30.8%	31.8%	32.7%	36.0%	28.2%	48.6%	44.6%	28.6%	51.5%	41.9%	16.7%	28.8%
Expense Reimbursements	5.4%	15.7%	22.9%	20.1%	15.9%	8.7%	20.9%	9.4%	10.8%	27.0%	12.9%	8.8%	19.4%	16.7%	25.0%
Financial Statement Fraud	12.0%	7.9%	10.9%	13.2%	5.3%	5.8%	17.4%	7.1%	6.8%	12.2%	17.1%	5.9%	9.7%	11.7%	3.8%
Non-Cash	10.6%	14.8%	30.2%	13.2%	17.4%	32.7%	22.1%	5.9%	17.6%	18.9%	22.9%	29.4%	38.7%	10.0%	13.5%
Payroll	3.8%	13.5%	11.5%	9.7%	7.6%	3.8%	16.3%	5.9%	8.1%	2.7%	11.4%	7.4%	3.2%	11.7%	13.5%
Register Disbursements	2.7%	1.7%	5.7%	2.1%	1.5%	8.7%	1.2%	0.0%	0.0%	1.4%	5.7%	2.9%	3.2%	1.7%	1.9%
Skimming	6.8%	14.0%	8.3%	12.5%	25.0%	7.3%	15.1%	10.6%	8.1%	5.4%	21.4%	11.8%	6.5%	18.3%	19.2%

2016 ACFE Study – Most Common Fraud Schemes in the Education Industry

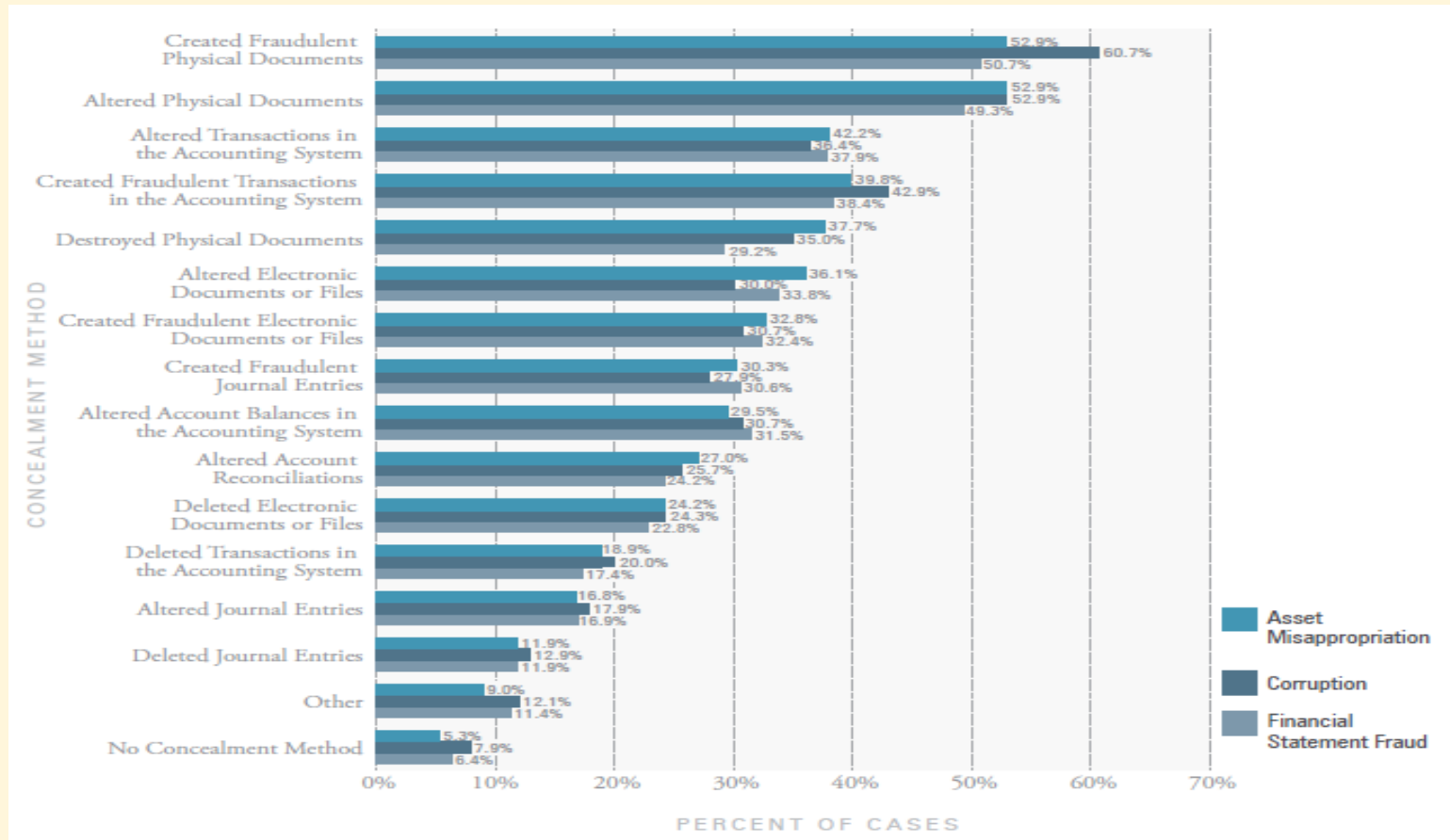
- 1.) Billing = 34.8%
- 2.) Corruption = 31.8%
- 3.) Skimming = 25.0%
- 4.) Cash on Hand = 17.4%
- 5.) Non-Cash = 17.4%
- 6.) Expense Reimbursements (Business Credit Cards) = 15.9%

Less Risk More Risk

Source – ACFE’s 2016 Report to the Nations on Occupational Fraud and Abuse

Concealment of Fraud Schemes

The most common fraudster concealment method for all three categories is **creating and altering physical documents**.



Source – ACFE’s 2016 Report to the Nations on Occupational Fraud and Abuse

Common Fraud Schemes in Higher Education

- Institution employee establishes a fictitious company and charges the institution for work not performed
- Faculty member files a fraudulent expense report to the Institution to be reimbursed for a same trip that was already paid by another party
- Deans and chairpersons create phony positions and hire friends and relatives into them
- Department heads use department funds to purchase goods and services for their personal use
- Faculty members develop products through their institution-sponsored research funds, and then market or sell products through their own private companies
- Staffers engage in consulting work on the side, but use institution labs and facilities for the jobs or assign the work to students as term projects
- Academic fraud regarding athletes – faculty being pressured to reduce course work or fudge grades for athletes by the university of athletic department

Source – ACFE's *The Fraud Examiner*, "The Fraud Curve: White-Collar Crime in Higher Education"

Real Life Fraud Cases in Higher Education

- **Vassar College (Poughkeepsie, NY)** - In April 2011, a former employee embezzled \$2 million from the college. The employee was a project manager who conspired with his wife in a scheme against the college. The two set up a fictitious construction company and charged the college for work not performed.
<http://www.cnn.com/2011/CRIME/04/16/new.york.vassar.larceny/>
- **Georgetown University** - In 2011, an administrator improperly compensated herself over \$390k over a three year period for work relating to a university sponsored conference. The compensation was done through an unknown bank account over which the administrator had signature authority.
<http://www.thehoya.com/fraud-uncovered-at-georgetown/>

Source – ACFE's *The Fraud Examiner*, "The Fraud Curve: White-Collar Crime in Higher Education"

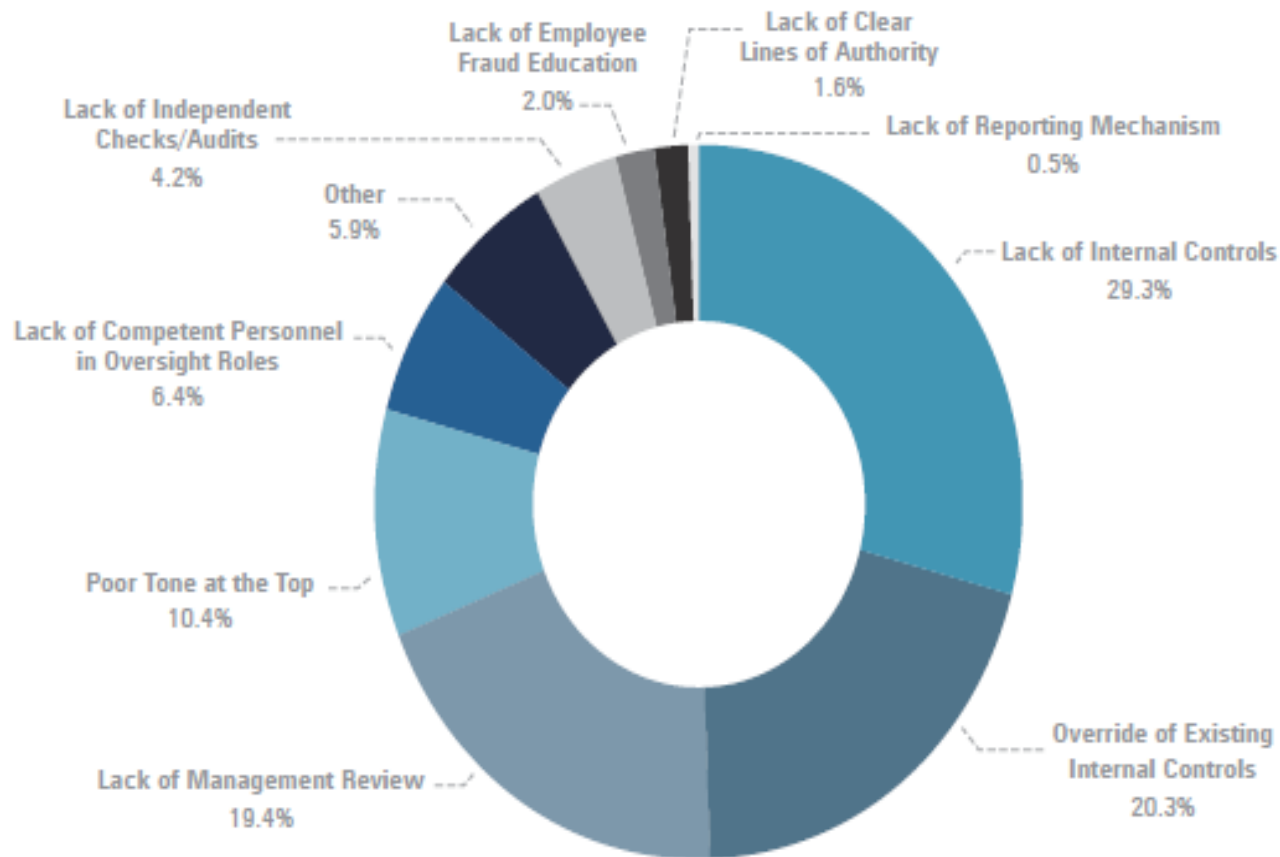
Real Life Fraud Cases in Higher Education

- **University of Florida** – In November 2015, the university agreed to pay the United States \$19.875M to settle allegations that the university improperly charged the U.S. Department of Health and Human Services (HHS) for salary and administrative costs on hundreds of federal grants between 2005 - 2010. <https://www.justice.gov/opa/pr/university-florida-agrees-pay-19875-million-settle-false-claims-act-allegations>
- **Stanford University** - In May 2011, five medical school professors were disciplined for breaching the school's conflict of interest policy. The faculty members were being paid to give promotional speeches on behalf of drug makers. The concern was that the relationship between pharmaceutical companies and academic researchers could intentionally influence medical research and in effect the practice of medicine. The University's honorable reputation took a blow as it endured an investigation and was scrutinized for not enforcing and effectively communicating its policies. <https://www.propublica.org/article/medical-schools-plug-holes-in-conflict-of-interest-policies>

Source – ACFE's The Fraud Examiner, "The Fraud Curve: White-Collar Crime in Higher Education"

Factor that Contribute to/Allow Fraud (Perceived Opportunity)

- Primarily made up of **internal control weaknesses**



Source – ACFE's 2016 Report to the Nations on Occupational Fraud and Abuse

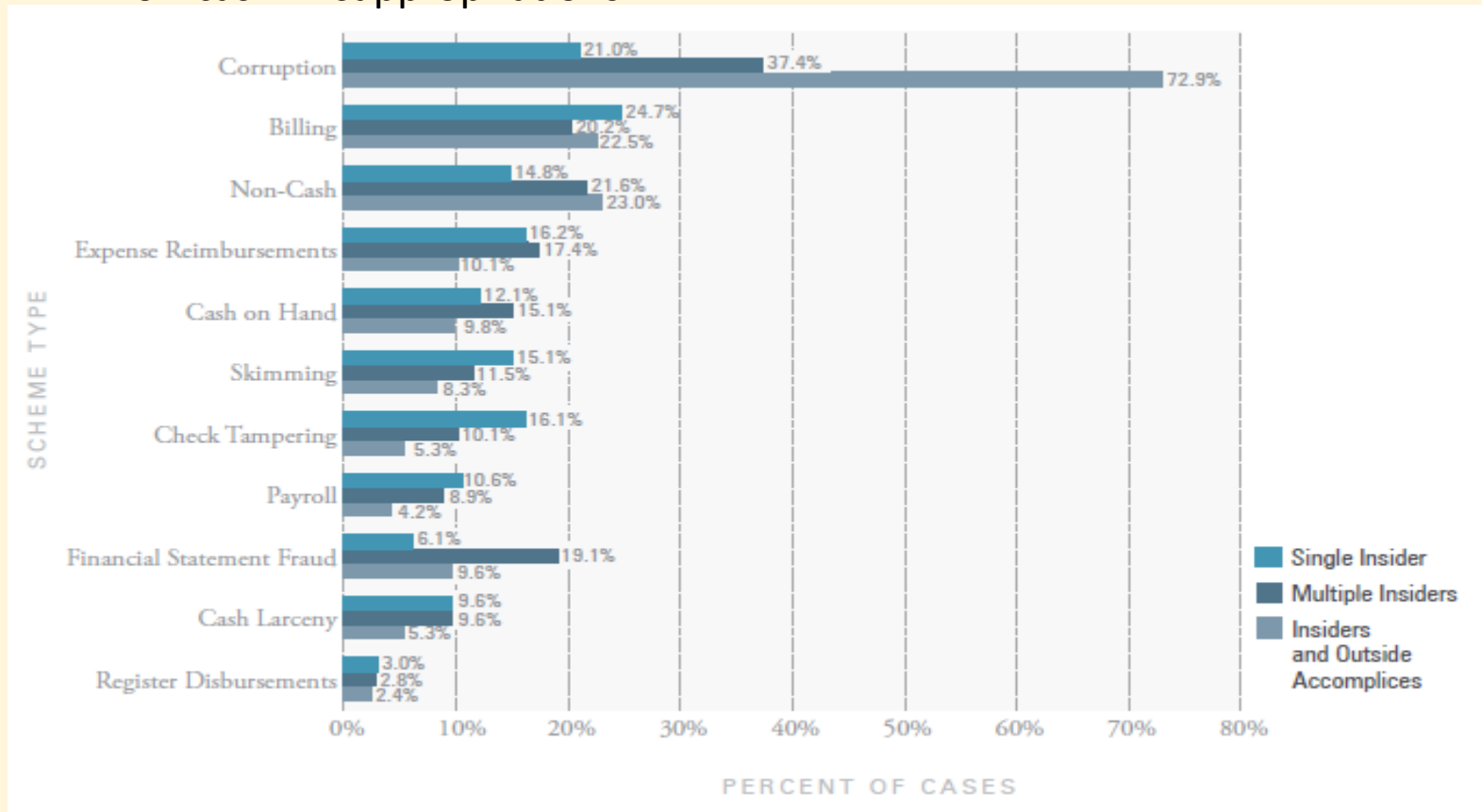
Fraud is Not Always a Solo Act

- In fact, a 2016 ACFE Report to the Nations (<http://www.acfe.com/rtnn2016/docs/2016-report-to-the-nations.pdf>) found that nearly ½ of fraud cases involve **multiple perpetrators**.
- Meaning that when fraud *does* occur, it often extends to surprising depths within an organization.

Fraud is Not Always a Solo Act

Certain Fraud Schemes are more common with Multiple Perpetrators

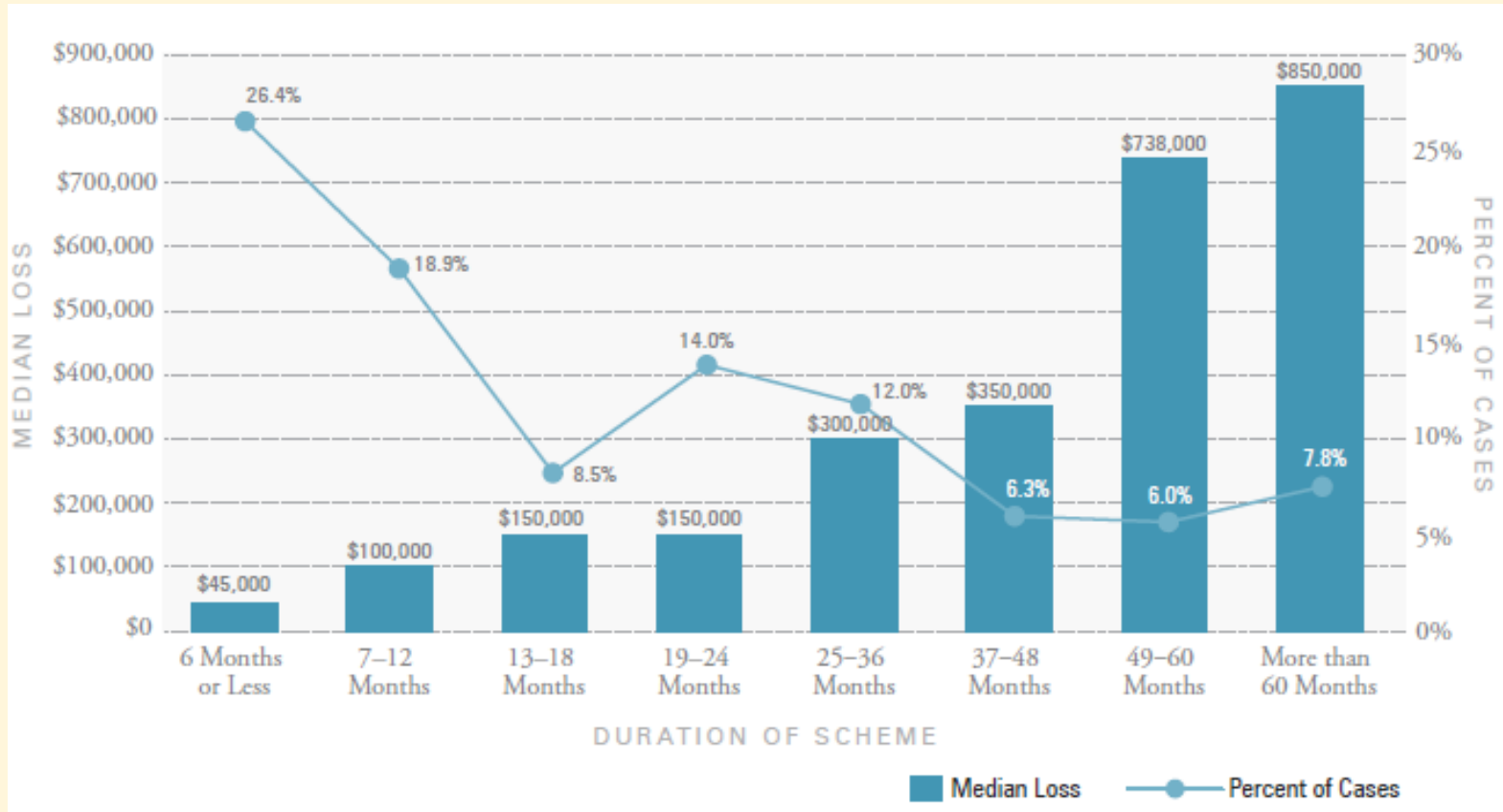
- Corruption
- Non-cash misappropriations



Source – ACFE’s 2016 Report to the Nations on Occupational Fraud and Abuse

Duration of Fraud Schemes

- The longer perpetrators are able to go undetected, the more financial harm they are able to cause
- Early detection of fraud mitigates the financial harm

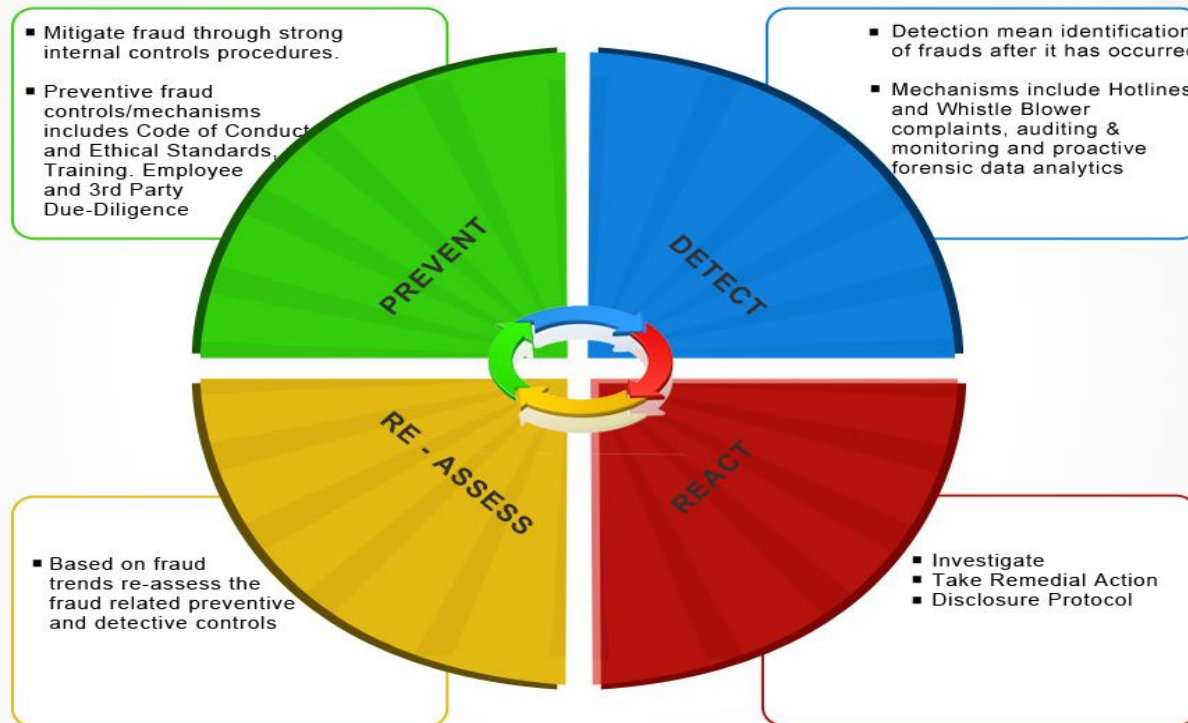


Source – ACFE's 2016 Report to the Nations on Occupational Fraud and Abuse

How to Mitigate Fraud

- While an independent audit may not uncover fraud, strong internal controls can help reduce the risk of theft, fraud, and embezzlement.

FRAUD RISK MANAGEMENT



Fraud Detection Measures

- While independent audits serve an important purpose and may prevent potential fraud, external audits rarely detect fraud.



Fraud Detection Measures

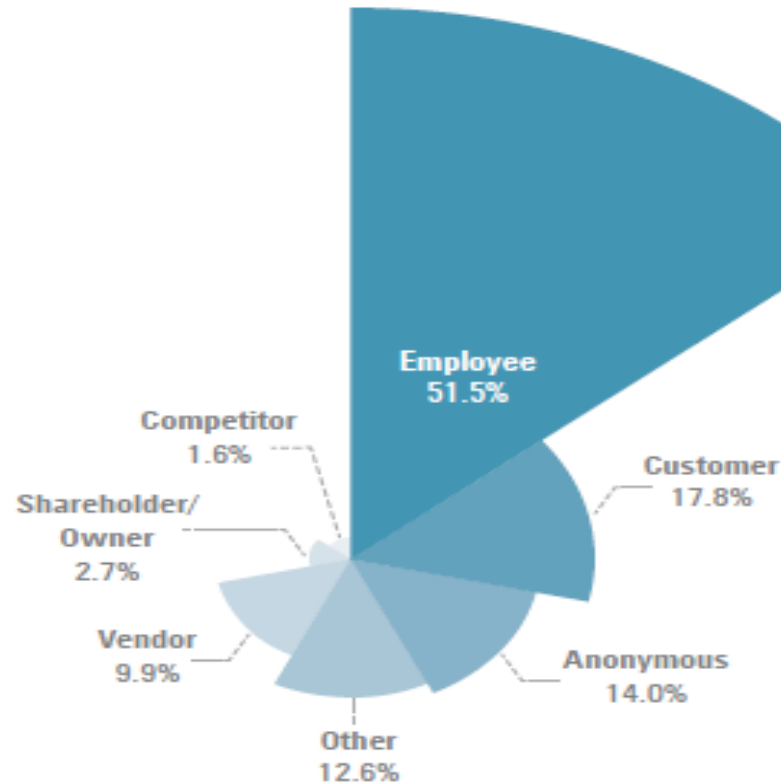
- Occupational Frauds are more likely to be detected by a **tip** than by any other means
- Improve fraud detection
 - Establish an anonymous tip line
 - Whistleblower policy

Detection Method	Percent of Cases
Tip	37.0%
Management Review	14.3%
Internal Audit	14.1%
By Accident	7.2%
Account Reconciliation	6.1%
Other	5.5%
Document Examination	4.8%
External Audit	4.0%
Notified by Law Enforcement	2.5%
Surveillance/Monitoring	1.9%
IT Controls	1.5%
Confession	1.2%

Source – ACFE's 2016 Report to the Nations on Occupational Fraud and Abuse

Anti-Fraud Measures – Source of Tips

- The most common source of tips are from other employees.



Source – ACFE's 2016 Report to the Nations on Occupational Fraud and Abuse

Anti-Fraud Measures – Source of Tips

- Look for employees who appear to be living beyond their means.



How to Mitigate Fraud

- Educating employees to detect fraud is the key to ***preventing and detecting*** workplace fraud.



- Free Resource for your Institution
[http://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/Fraud_Prev_Checkup_DL\(1\).pdf](http://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/Fraud_Prev_Checkup_DL(1).pdf)

Fraud Prevention Measures

- Role of internal controls



Internal Controls to Prevent Fraud

- **Perform Dynamic Risk Assessments**

- People are dynamic, so your risk assessments must keep pace.
- With roles and responsibilities identified, use your team to pinpoint which inherent risks exist and then prioritize them based on their impact, likelihood, and the speed at which they occur.
- Finally, use those priority rankings to map the risks to the best preventive and detective controls.

Internal Controls to Prevent Fraud

- **Segregation of Duties/Monitoring** (Splitting up responsibilities among multiple people – with each serving as a check or balance on the other – is a basic form of internal control.)
- Examples:
 - Reconcile bank statements in a timely manner
 - Compare logged cash receipts to actual deposits
 - Credit card statements independently reviewed and approved prior to payment
 - Review payroll including names and pay rates

Internal Controls to Prevent Fraud

- **Policies and Procedures** (Implement and Ensure they are Operating Effectively)
 - Strive to foster a culture that encourages employees to speak openly, without fear of retaliation.
 - Having a hotline increases your chances of discovering a fraud through a tip, and may reduce the ultimate exposure
- Examples:
 - Implement a Conflict of Interest Policy
 - Implement a Whistleblower Policy, ***make sure employees know about it***
 - Implement an approval process for new contractors and vendors
 - Require employees to sign an Ethical Standards Policy
 - Prohibit use of acronyms when writing checks or on check endorsements

Free AICPA Resources:

[Whistleblower Policy Example](#)

[Conflict of Interest Policy Example](#)

Internal Controls to Prevent Fraud

- **Safeguarding Assets**
- Examples:
 - Physically secure assets; such inventories, computers, equipment (**Lock it up!**)
 - Conduct thorough background checks on employees (*especially accounting staff*)
 - Log and restrictively endorse checks received by mail
 - Keep check supplies under lock and key
 - Bond all employees who handle cash and checks

Questions or Comments



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