



TEXAS TECH UNIVERSITY SYSTEM™

Fraud Prevention Training

The Prevention and Detection of Fraud Begins with You



Fraud Happens...





What you will take away with you:

- Glossary of Fraud Terms
 - *Details 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*





2010 Report to the Nation 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)





Fraud Facts:

- 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.

Industry of Victim Organizations (sorted by Frequency)			
Industry	Number of Cases	Percent of Cases	Median Loss
Banking/Financial Services	298	16.6%	\$175,000
Manufacturing	193	10.7%	\$300,000
Government and Public Administration	176	9.8%	\$81,000
Retail	119	6.6%	\$86,000
Healthcare	107	5.9%	\$150,000
Insurance	91	5.1%	\$197,000
Education	90	5.0%	\$71,000
Services (other)	88	4.9%	\$109,000
Construction	77	4.3%	\$200,000
Technology	66	3.6%	\$250,000
Transportation and Warehousing	62	3.4%	\$300,000
Oil and Gas	57	3.2%	\$478,000
Real Estate	57	3.2%	\$475,000
Services (professional)	51	2.8%	\$110,000
Arts, Entertainment and Recreation	49	2.7%	\$180,000
Utilities	46	2.5%	\$120,000
Wholesale Trade	42	2.3%	\$613,000
Religious, Charitable or Social Services	41	2.3%	\$75,000
Telecommunications	37	2.1%	\$131,000
Agriculture, Forestry, Fishing and Hunting	27	1.5%	\$320,000
Communications/Publishing	16	0.9%	\$110,000
Mining	12	0.7%	\$1,000,000

Education — 90 Cases		
Scheme	Number of Cases	Percent of Cases
Billing	38	42.2%
Corruption	22	24.4%
Skimming	19	21.1%
Expense Reimbursements	15	16.7%
Non-Cash	11	12.2%
Larceny	11	12.2%
Payroll	9	10.0%
Check Tampering	7	7.8%
Cash on Hand	7	7.8%
Financial Statement Fraud	1	1.1%
Register Disbursements	0	0.0%

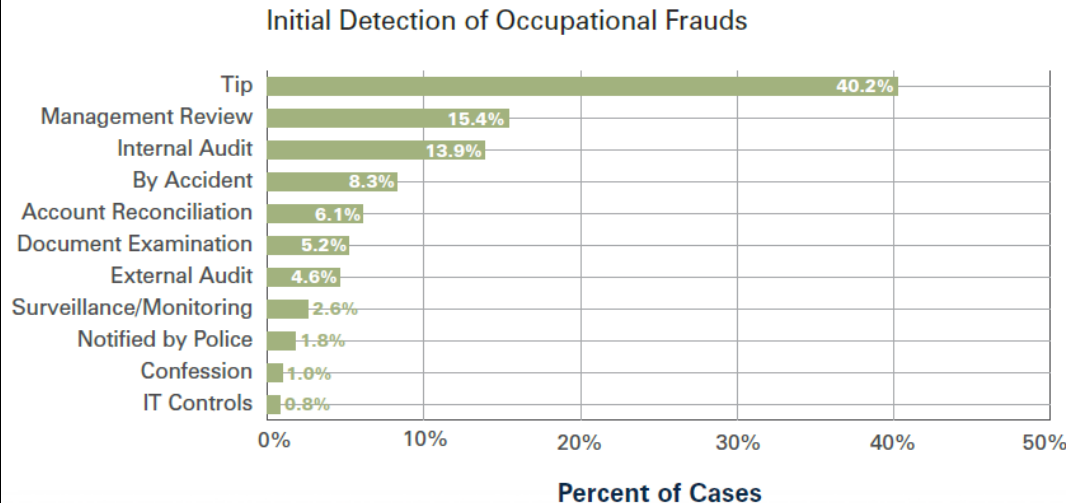
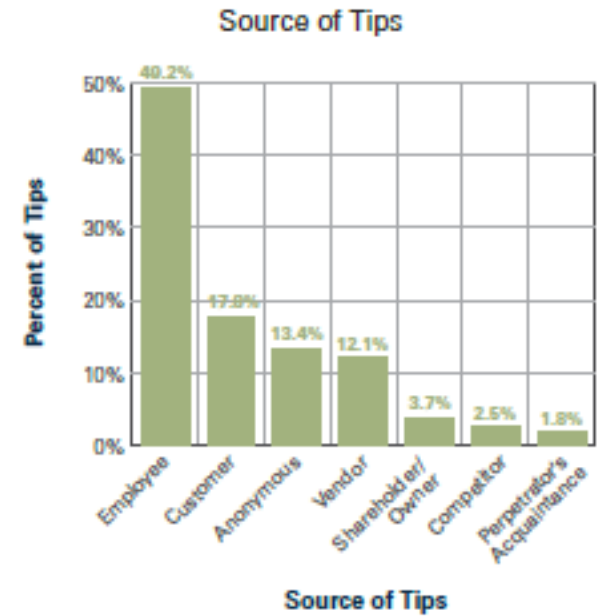
Government and Public Administration — 176 Cases		
Scheme	Number of Cases	Percent of Cases
Corruption	57	32.4%
Billing	43	24.4%
Expense Reimbursements	32	18.2%
Non-Cash	30	17.0%
Larceny	25	14.2%
Check Tampering	24	13.6%
Skimming	23	13.1%
Cash on Hand	21	11.9%
Payroll	20	11.4%
Financial Statement Fraud	5	2.8%
Register Disbursements	5	2.8%



Fraud Facts:

- In 2010 over 55% of fraud cases were discovered by tips or during routine reviews by management.

You are Texas Tech's greatest resource!





Fraud 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



Case Studies

- Full Case Studies and Presentation Materials Available at <http://www.texas-tech.edu/audit/>

Case Study 1
Raider Red
TTU



Case Study 2
Double T
HSC



Case Study 3
Will Rogers
TTU

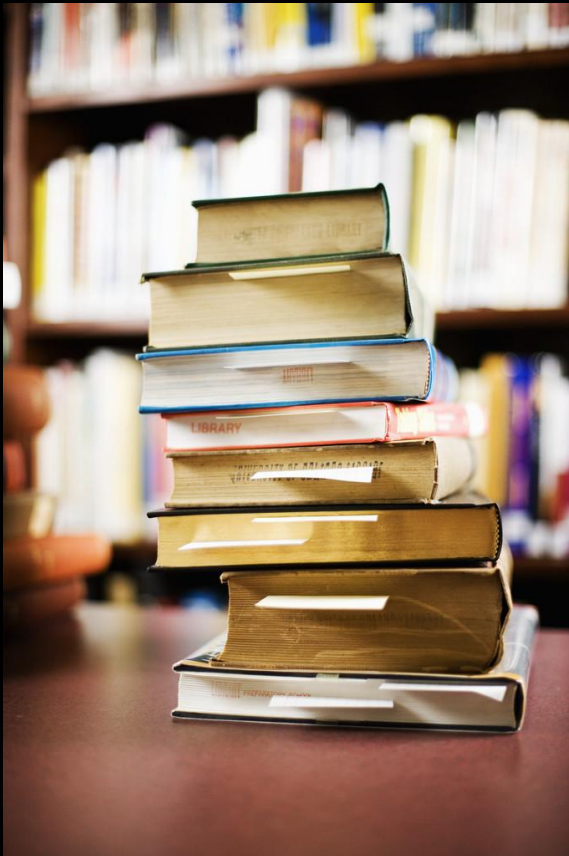


Case Study 4
Masked Rider
HSC





The Fraud Schemes of our Four Case Studies



- 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 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 conflict 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* forms (DBAs)
- *TINs Matching*
 - Match vendor Tax Identification Numbers to employee SSNs
- *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



Double T

- Pressure
- Opportunities
- Rationalization





Case Study 2



Double T

- Pressure
 - Gambling Addiction
- Opportunities
 - A lack of review of purchasing and inventory control
- Rationalization
 - Everyone is making money on the side



Case Study 2

Double T



- 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 HSC equipment and sells it on the side, keeping the cash.



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*



10 Minute Break



Case Study 3

Will Rogers

- Pressure
- Opportunities
- Rationalization





Case Study 3

Will Rogers

- Pressure
 - 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





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 eRaider 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 non P-Card refunds.*
 - *Duplicate purchases on P-Cards on the same approximate date, time, and amount.*



Billing Schemes

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

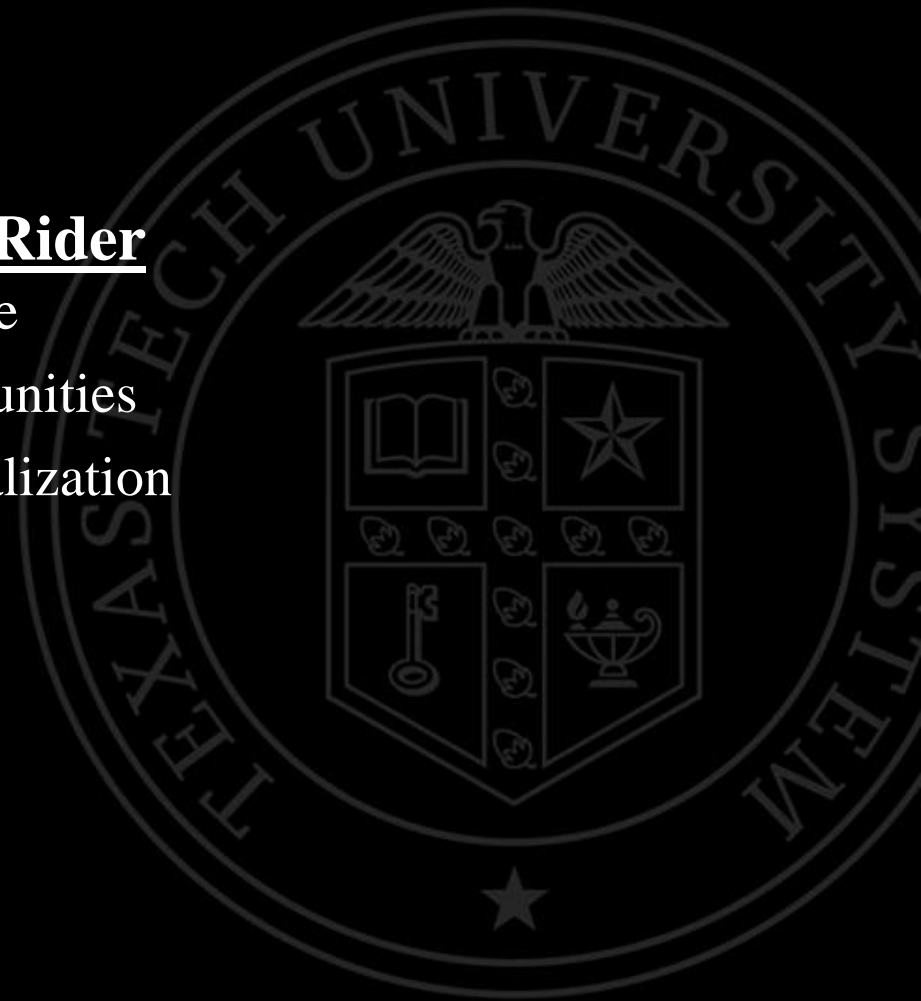


Case Study 4



Masked Rider

- Pressure
- Opportunities
- Rationalization





Case Study 4



Masked Rider

- Pressure
 - 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

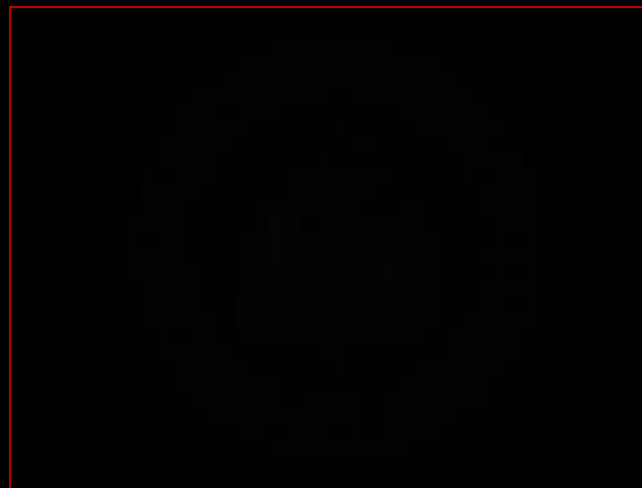
- Detailed expense reports should require the following information:
 - *Original receipts or other supporting documentation*
 - *Explanation of the expense including specific business purpose*
 - *Date expense occurred*
 - *Place of expenditure*
 - *Amount*



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*

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





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 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 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*

Opportunity

Rationalization

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:

- 2010 ACFE Report to the Nation on Occupational Fraud & Abuse, *Association of Certified Fraud Examiners*.
<http://www.acfe.com/documents/2010-rttn.pdf>
- *Managing the Business Risk of Fraud: A Practical Guide*, ACFE, AICPA, IIA, 2007.
- *Principles of Fraud Examination*. Joseph T. Wells. 2005.
- *2007 Fraud Examiner's Manual*, ACFE, 2007.



If You Suspect Fraud, You Can:

- *Report it to your supervisor, Tech Police, or General Counsel*
- *Contact the Office of Audit Services by phone*
TTU: 806-742-3220
HSC: 806-743-1050
ASU: 325-942-2261
HSC El Paso: 915-783-6249
- *Report your suspicions anonymously on the Texas Tech Compliance Line at <http://www.ethicspoint.com>*



Additional Resources:

- Cover your Assets: Control Environment and Cash Handling
 - Contact Kim Turner at kim.turner@ttu.edu

- Visit our website at <http://www.texastech.edu/audit/index.php>

- Regents' Rule 03.01 – Ethics Policy
 - www.depts.ttu.edu/oppol/Chapter03.pdf

- Regents' Rule 07.03 – Fraud Policy
 - www.depts.ttu.edu/oppol/Chapter07.pdf

FRAUD PREVENTION

It starts with you!



TEXAS TECH UNIVERSITY SYSTEM™