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

• What is fraud?
  • Definition
  • Facts
  • Four factors
• Fraud risk assessment
  • Four evaluation criteria
• Common fraud schemes
  • Case studies
• Prevention and detection controls
  • What can you do?
What is fraud?
Definition

Fraud is any intentional act or omission designed to deceive others and resulting in the victim suffering a loss and/or the perpetrator achieving a gain.

The Association of Certified Fraud Examiners
The American Institute of Certified Public Accountants
The Institute of Internal Auditors
Fraud Facts

The 2014 Report to the Nations on Occupational Fraud & Abuse by the Association of Certified Fraud Examiners cited:

• The estimated typical organization loses 5% of revenues each year to fraud

• Operating revenues at Texas Tech University System for fiscal year 2014 were $1,085,666,337, meaning more than $54 million is at risk for fraud within the System!
Fraud Facts

- In 2014, 58% of fraud cases were discovered by tips or during routine reviews by management.
Fraud Facts

• In 2014, 86% of fraudsters had no prior criminal history.
  • 14% did – thus, background checks

• In 2014, 82% of fraudsters had no prior employment issues related to fraud.
  • 18% did – thus, reference checks prior to hiring
Four Fraud Factors

- Pressure
- Opportunity
- Rationalization
- Capability
Four Fraud Factors: Pressure

- Non-sharable financial pressure
- Family issues
- Gambling, alcohol, or drugs
- Overwhelming desire for financial gain
- Pressure to meet institutional goals
- Dissatisfaction at work
Four Fraud Factors: Capability

- Position or function within the organization
- Personal traits and abilities
- Confidence in one’s ability to commit fraud undetected
- Ability to talk one’s way out of trouble
- Deals well with stress
Four Fraud 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
Four Fraud Factors: Opportunity

The only aspect the organization really controls is opportunity.
Fraud Risk Assessment
Fraud Risk Assessment

- A fraud risk assessment identifies where fraud may occur within the organization.
- A fraud risk assessment should:
  - Consider relevant fraud schemes and scenarios
  - Map those schemes and scenarios to mitigating controls
Four Evaluation Criteria

1. Likelihood
   • What is the probability that this type of fraud will occur at our institution?

2. Pervasiveness
   • Assuming that this type of fraud could occur or is occurring, would it affect only a few division/departments or is it something that could be widespread?
Four Evaluation Criteria

3. Materiality
   • Assuming this fraud occurs at our institution, would the dollar amount and/or value lost be large or small?

4. Reputational Risk
   • Should the public discover that this type of fraud is occurring, how significantly would it impact the reputation or “brand” of our university (i.e., loss of public trust)?
Common Fraud Schemes
Common Fraud Schemes

• Asset Misappropriation
  • Cash Theft
  • Inventory and Other Assets
  • Fraudulent Disbursements

• Corruption
  • Conflicts of Interest
  • Bribery and Incentives
Asset Misappropriation: Cash

Cash Larceny

• Is the intentional taking of cash
• Can occur any time an employee has access to cash
• Examples: theft of cash payments, currency in a register or a cash box, or from deposits
Asset Misappropriation: Cash

Types of Cash Larceny

• Theft of cash on hand
  • Reversing transactions
  • Altering cash counts
• Theft of cash from the deposit
  • Deposit lapping
Case Study:
TTUHSC Amarillo Business Office

Schemes: Theft of Cash and Deposit Lapping

- Lack of segregation of duties in cash handling, payment posting, and deposit processes
- No supervisory review or approval of deposits
- Cashier stole over $535,000 in cash from deposits over an 8-year period.
Asset Misappropriation: Cash

Cash Skimming

- Theft of cash before it is recorded in an accounting or cash system
- Skimming is an “off-the-books” fraud
Asset Misappropriation: Cash

Types of Cash Skimming

• Sales skimming

• Receivables skimming
  • Forcing account balances or destroying transaction records
  • Lapping
  • Writing off account balances
Fraud Prevention: Cash

Red flags:

• Cash is missing!
• One person does it all
• Deposits are not made timely
• Customer complaints
• High voids, discounts, or refunds
• Cash often out of balance
Fraud Prevention:
Cash

What to monitor:

• Segregation of duties
  • Custody
  • Recording
  • Reconciliation
• Surprise cash counts
• Refusal to take time off
• Detailed reconciliation of monthly ledgers
Types of Inventory and Other Asset Misappropriation

• **Misuse**
  - Any use that is not associated with the University’s intended or expressed used of the asset

• **Larceny**
  - Purchasing and receiving schemes
  - Asset requisitions and transfers
Fraud Prevention: Inventory and Other Assets

Red flags:

• Missing equipment, supplies, etc.
• Overpurchasing
• Attitude of “It’s Mine”

What to monitor

• Segregation of duties in ordering / receiving / bill payment
• Tracking of risky inventory (i.e. iPads, laptops)
Asset Misappropriation: Fraudulent Disbursements

Types of Fraudulent Disbursements

• Billing schemes
• Payroll schemes
• Expense reimbursement schemes
• Check tampering
• Register disbursements
Asset Misappropriation: Fraudulent Disbursements

Billing schemes

Three types of billing schemes:

- Shell companies
- False invoicing
- Personal purchases with institutional funds
Case Study: TTU Housing

Scheme: Billing Scheme – Shell Company

• Employee created a shell company between the University and the legitimate vendor – a tile layer
• Instructed the vendor to bill the shell company
• Shell company billed the University for double the actual cost
• The University paid $281,920 to the shell company over 1 ½ years
Fraud Prevention: Billing Schemes

Red flags:
- Invoices slightly below bid limits
- Over-concerned or interested parties
- Sketchy vendor information

What to monitor:
- Multiple payments across several invoices exceed bid limits
- Consecutive invoice numbers
- Generic invoices
- “Smell test”: something just doesn’t seem right
Case Study: TTUHSC Lubbock Correctional Managed Healthcare

Scheme: Billing Scheme – Personal Purchases

• Material Manager purchased large amounts of medical equipment with University funds and sold medical equipment through personal eBay and Amazon accounts

• Type of equipment was reasonable, but volume was excessive

• Questionable purchases totaled over $580,000 over a 5-year time period
Case Study: TTUHSC El Paso Center of Excellence in Cancer

Scheme: Billing Scheme – Personal Purchases

• Abuse of purchasing authority by fund manager
• Lack of segregation of duties in purchasing process
• 175 items (approximately $8,600) over an 8-month period that appeared to be personal or non-work related
• Pressure to spend down state funds
Fraud Prevention:
Personal Purchases

Red flags:
• Overpurchasing
• Unusually high number of P-Card transactions
• Duplicate purchases on P-Cards on the same approximate date, time, and amount
• Purchasing of items through non-TechBuy vendors

What to monitor:
• P-Card statements, card sharing, and logs
• eRaider approvals
  • DO NOT share your eRaider / Banner passwords with ANYONE.
Asset Misappropriation: Fraudulent Disbursements

Payroll schemes

• Falsification of a timecard or information in the payroll records

• The most common payroll frauds are:
  • Ghost employees
  • Falsified hours and salary
Case Study: Angelo State Timesheet Fraud

Scheme: Payroll – Falsified Wages

• Student Assistant reported 333 hours that she did not work over a 6-month time period, resulting in overpayments of $2,600

• Timesheet approver did not know actual hours worked

• Theft of time is still fraud
Fraud Prevention: Payroll

Red flags:
- Blaming the system for pay errors
- Overrides on the time clock
- Unknown employee in pay records

What to monitor:
- Reconcile monthly account ledgers
- Approval of timesheets
Asset Misappropriation: Fraudulent Disbursements

Expense reimbursement schemes

• The most common disbursement frauds are:
  • Mischaracterized expense reimbursements
  • Fictitious expense reimbursements
  • Overstated expense reimbursements
    • Altered receipts
    • Overpurchasing
  • Multiple reimbursements
Case Study: TTU Student Financial Aid

Scheme: Mischaracterized Expense

• Student Financial Aid employee submitted travel voucher for recruiting event over Memorial Day weekend

• Employee could not remember details or provide documentation of event

• Purpose of trip on voucher was vague
Fraud Prevention: Expense Reimbursement

Red flags:
- Fuzzy support / details
- Missing, altered, generic, or non-original receipts

What to monitor:
- Detailed expense reports should include:
  - Original receipts or other supporting documentation
  - Specific business purpose
  - Date, place, and amount
Asset Misappropriation: Fraudulent Disbursements

Check tampering schemes
- Forged maker
- Forged endorsement
- Altered payee
Case Study: TTUHSC Lubbock SIMLife Center

Scheme: Theft of Cash, Check Tampering, and Billing Scheme – Personal Purchases

- Two employees directed customers to pay with cash or leave checks blank
- No cash deposited
- Over $20,000 in cash and checks may have been stolen over a 1-year time period
- One employee gave her eRaider name and password to her son to set up carts in TechBuy
Fraud Prevention: Check Tampering

Red flags:

• Missing cash or deposits
• Customer or patient complaints

What to monitor:

• Lock up the check stock / check book
• Segregation of duties
• Surprise cash counts
• Reconcile your monthly ledgers
Asset Misappropriation: Fraudulent Disbursements

Register disbursement schemes

• When cash is stolen as part of a register disbursement scheme, the removal of the cash is recorded on the register tape. A false transaction is entered so it appears that the disbursement of money was legitimate.

• Examples of these schemes are:
  • False refunds
  • False voids
Fraud Prevention: Register Disbursements

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Fraud Prevention: Register Disbursements

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Corruption: Conflicts of Interest

Types of Conflicts of Interest

• Purchase schemes
• Entitlement schemes
• Conflicts of commitment
Case Study:
TTUHSC El Paso Storage Facility

Scheme: Conflict of Interest – Purchase

• Director of Facilities Department had conflicts of interests with several vendors used by the department

• Director leased a storage facility owned by his son

• Facilities paid $116,000 to these vendors over a 9-year time period, $100,000 of which was to his son
Case Study: TTU College of Agriculture

Scheme: Conflict of Interest – Purchase

• Tenured professor awarded over $15,000 in scholarships to his children and $7,500 to his son’s girlfriend
• Purchased livestock from his minor children
• Culture of department resulted in multiple issues over a 9-year period
Fraud Prevention: Conflicts of Interest

Red flags:
- Tips and complaints
- Favorable treatment of a certain vendor
- Unusual request for influence

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
Corruption: Bribery and Incentives

Types of Bribery and Incentives Schemes

• Bid-rigging schemes
  • “Need” recognition
  • Specifications

• Bribery schemes
  • Kickbacks
Case Study:
TTU Athletics Sports Nutrition

Scheme: Conflict of Interest – Purchase & Bid Rigging

• Director of Sports Nutrition Program owned company used to purchase supplements

• No segregation of duties in purchasing and inventory processes

• Athletics purchased over $430,000 of supplements over a 2-year time period
Fraud Prevention: Bribery and Incentives

Red flags:

- Gifts and favors
- Favorable treatment of a certain vendor
- Using an unusual or non-contract vendor
- A person who insists on being the point of contact
- Paying a higher price
- A constant vocal complainer
Fraud Prevention: Bribery and Incentives

What to monitor:

• Market value of products purchased
• Higher than expected volume of purchases from particular vendors
• Unnecessary purchases
Fraud Prevention: 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 FOPs monthly

- Conducted by a person not in the procurement process, if possible

Review procurement card statements, including receipts

- Do not simply sign them and pass them through

Review approval authorities

- Limit the number of individuals with approver or requestor authority on FOPs
- Ensure only current employees have access
- Conduct the review no less than annually
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 responsibility in cash handling areas

ASK QUESTIONS
  • No one has unquestioned authority to do as they wish
Reporting Fraud

If you suspect fraud:

• Report it to your supervisor, University Police, or General Counsel

• Contact the Office of Audit Services by phone
  • TTU: 806-742-3220
  • HSC: 806-742-3220
  • ASU: 325-942-2261
  • HSC El Paso: 915-215-4148

• Report your suspicions anonymously at www.ethicspoint.com
Presentation Resources and Works Cited

- 2014 ACFE Report to the Nations on Occupational Fraud & Abuse, Association of Certified Fraud Examiners.
Fraud Prevention

It Starts with You!