

# Don't Get Caught Wearing ORANGE

**Lessons on Campus Fraud &  
Misconduct**



# Today's Topics

## ◆ Who We Are

## ◆ Fraud In a Nutshell

Definitions

Statistics

Why it Happens

How to (Try to) Prevent It

## ◆ Fraud in the A&M System

# **Internal Audit's Responsibilities**

- ◆ **Develop an annual audit plan based upon a system-wide risk assessment process**
- ◆ **Conduct audits in support of the plan**
- ◆ **Report results to the Board of Regents, the Chancellor, and the Chief Executive Officers**
- ◆ **Coordinate audit efforts with external and state auditors**
- ◆ **Investigate suspected fraud, waste and abuse**

# **Fraud**

**A deliberate act or failure to act with the intention of obtaining an unauthorized benefit such as money or property, by deception or other unethical means.**

## **Occupational Fraud**

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

# Examples

- ◆ Theft
- ◆ Embezzlement
- ◆ Kickbacks/Bribes
- ◆ Travel reimbursement schemes
- ◆ Falsification of government documents
- ◆ Misappropriation/misuse of property
- ◆ Misappropriation/misuse of confidential information
- ◆ Unauthorized manipulation of IT system/network
- ◆ Conflict of interest
- ◆ Falsification of financial statements



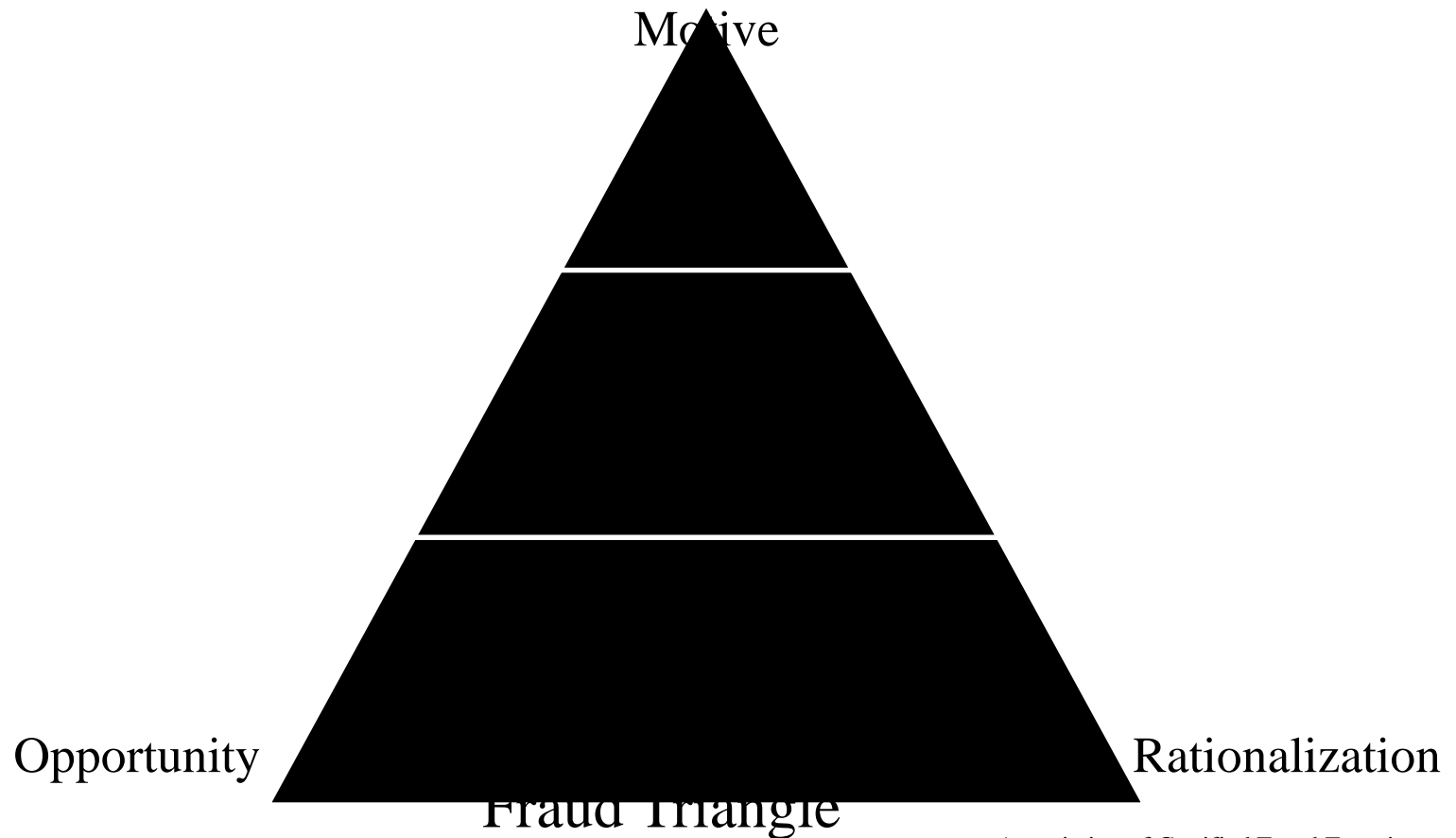
# Statistics

- ◆ U.S. organizations lose approximately 5% of their annual revenues to fraud \*
- ◆ This is \$60 million in fraud losses for the A&M System in fiscal year 2011 (based on budgeted revenues of ~ \$1.2 billion)
- ◆ This is ~\$5,366 from each employee annually



\*The Association of Certified Fraud Examiner's 2010 Report to the Nation

# Why People Commit Fraud



Association of Certified Fraud Examiners

# Motive

- ◆ **Incentive – Increase “bottom line” to receive a bigger bonus**
- ◆ **Need – To pay for child’s college, new car, new house**
- ◆ **Problem – To pay for unexpected medical bills**
- ◆ **Pressure – Everyone does it**



# Opportunity

**Every fraudster is typically given the opportunity to take advantage of the organization.**

- ◆ **Poor internal control design**
- ◆ **Lack of internal controls**
- ◆ **Trust**
- ◆ **Loyalty**



# **Rationalization**

**Most fraudsters consider themselves to be good, honest people, and can usually rationalize their behavior.**

- ◆ **Entitlement (underpaid/overworked)**
- ◆ **Just Borrowing (I'll pay it back later)**
- ◆ **Just this once**
- ◆ **Organization has plenty of money**
- ◆ **Disagree with the rules**

# Methods of Detecting Fraud

- ◆ **Tip** 40%
- ◆ **Internal Controls** 30%
- ◆ **Internal Audit** 14%
- ◆ **By Accident** 8%
- ◆ **External Audit** 5%
- ◆ **Police Notification** 2%



\*The Association of Certified Fraud Examiner's 2010 Report to the Nation

# Red Flags

- ◆ **No segregation of duties**
- ◆ **Inadequate/missing records**
- ◆ **Lack of account reconciliations**
- ◆ **Management attitude**
- ◆ **Financial pressures**
- ◆ **Complex accounting system**
- ◆ **Small number of employees with all of the knowledge**
- ◆ **Breaks or bends the rules (ends justify the means)**
- ◆ **Living beyond his/her means**

# Prevention versus Detection

## ◆ **Detection**

**Reactive**

**Responsibility delegated to Internal Audit**

**Costly & Time Consuming**

## ◆ **Prevention**

**Proactive**

**Every employee's responsibility**

**Cost effective**

**Processes in place to keep the honest people honest**

# **General Preventative Steps**

## **Do the little things right every day**

- ◆ **Follow the rules & expect others to do the same**
- ◆ **Do what you are paid to do**

## **Be aware of your “surroundings”**

- ◆ **Is this how things are supposed to work?**
- ◆ **What are others in the process supposed to be doing & are they?**

## **Ask questions**

- ◆ **Ask if you DO know & ask if you DON'T know**
- ◆ **Get a second opinion**

## **A&M System Policy 21.04, Control of Fraud, Waste & Abuse**

**Employees are required to report factual information suggestive of fraudulent, wasteful or abusive activities that may involve the A&M System or its members.**

**Internal Audit is responsible for investigating allegations of fraud, waste and abuse.**

# How to Report Suspected Fraud

- ◆ Immediate Supervisor or any supervisor in your chain of command
- ◆ A&M System Risk, Fraud & Misconduct Hotline (link on every member's home page)
- ◆ A&M System Internal Audit Department
- ◆ State Auditor at [www.sao.state.tx.us/siu](http://www.sao.state.tx.us/siu)

All reports can be made anonymously



# Contact Information

## Risk & Misconduct Hotline:

- **Telephone**                      **888.501.3850**
- **Internet**                        **Hotline link on every member's homepage**

## Investigative Audit Services:

- **Robin Woods**                      **robin-woods@tamu.edu**
- **Debi Fincher**                      **dfincher@tamu.edu**
- **Lauro Garza**                        **lgarza@tamu.edu**