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

- Motive
- Opportunity
- Rationalization

Fraction Triangle

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

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