Introduction to Ethics and Fraud

IMPOSSIBLE TO SEPARATE

ROBERT E. DIXON—OKLAHOMA STATE UNIVERSITY
Introduction Ethics and Fraud
So, what is ethics?

What is morality?

Who makes the rules?

Is it ok sometimes?

Research issues

What is the greater good?

Who does it hurt?

What’s the Difference?

Is higher Ed Unique?

Right or Wrong?

Do my intentions matter?

Academic

Financial

Honor, integrity, character, code

Is there a right Choice?
Ethics Defined

As defined by Webster

- Is the study of standards of conduct and moral judgements; Moral reasoning: The system or code of morals of a particular person, religion, group, or profession.

- The Scientific Study of Morality

- In basic terms...making the right decision even when there is no one to answer to but ourselves.

   “Educating the mind without educating the heart is no education at all.”

--------- Aristotle
But because fraud is man’s peculiar vice,
More it displeases..........and therefore, the
Fraudulent are lower, suffering more.

Dante
Definition of Fraud

From an institutional perspective, fraud includes any intentioned or deliberate act to deprive the institution of property or money by guile, deception or other unfair means.

Fraud, every conscience stung, a man may practice upon him who trusts, and him who shows no ability to discern.....

*Dante*
“Part of establishing the standards is that it is NOT seen as something separate and apart/ That it really becomes part of the very structure of the business world. And what comes of that, of course are higher standards, more ethical behavior, and to the benefit of everyone.”

Paul Sarbanes..... Interview with Neil Amato (July 30, 2012) *Journal of Accountancy*
Uncontrolled and/or Unethical Behaviors may be indicators of fraud or potential fraud

- Ignoring Regulatory Requirements
- Lying and falsification of records
- Ineffective Service
- Harassment
- Discrimination
- Drug, alcohol, and gambling abuses/addictions
- Wrongful termination or fear of wrongful termination
43% of employees (surveyed) committed an unethical act

75% observed unethical acts and did nothing.

Reasons:
- They are part of the 43%,
- They don’t care,
- They don’t feel safe reporting the incident, and/or
- Why bother? Nothing will be done anyway.
What can be done?

- Diversity in the workplace
- Frequent and robust communications with employees
- Frequent assessment of the culture of the organization/division/department/staff
- Wider questions/broader topics in assessment—including misconduct reporting.
- Strong(er) policies against retaliation—protecting
- Greater visibility of compliance functions
- More resources for managers and staff relating to compliance/ethics

Janet Hawkins (Journal of Accountancy  June 2014)
Traditions, Deeply Rooted and Sometimes Practical

ETHICS IN THE UNIVERSITY CULTURE
References

Gordon Marino – St Olaf College
Kathleen McAuliffe “Disgust Made us Human”
Amitai Etzioni – The Brookings Institute
ACFE “Ethical Lapses by CFE’s”
Christopher Newfield
James Counelis
Dennis Collins
Frank J Navran
William Readings
Nina Rosenstand—San Diego Mesa College
Thorstein Veblen
Lawrence Kohlberg
NSF “On Being A Scientist”
The Atlantic Monthly
Harvard Business Review
The New Yorker
Most assume “...improving moral lives (ethical behavior) is a matter of developing conceptual understanding and analytical acumen. If we just know a little more about ethics...”

Study and train all you want, but in those moments when it counts...........

“A quiet conscience makes One strong.”
-----Anne Frank

While most of us have the moral/ethical training to handle most situations, this training and understanding clashes with our own immediate self-interest or preservation.

Why Study Ethics?
Ethical Challenges/Problems/Dilemmas

A unresolved dilemma challenging or threatening a person’s moral duties and values. The dilemma is most often caused because there is no clear choice because there are conflicting but arguably valid sides in the situation.
Influences

• Physiological/Neurological
• Cultural/Subcultural
• Lived Experience
• Societal Expectations

“I hold that a strongly marked personality can influence Descendants for generations.”

--------Beatrix Potter
Body and Mind
Culture
Images, Sounds, Language, Smells, Feelings, Experiences

Create/Foster/Reinforce/Extinguish/

- Archetypes
- Stereotypes
- Symbols
- Preferences
- Bias
- Prejudices
- Gag Factors
<table>
<thead>
<tr>
<th>The Obvious vs. the Obscure</th>
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<tbody>
<tr>
<td><strong>Love</strong></td>
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<td><strong>Truth</strong></td>
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<td><strong>Beauty</strong></td>
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<td><strong>American Way</strong></td>
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<td><strong>Honor</strong></td>
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<td><strong>Happiness</strong></td>
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<td><strong>Patriotism</strong></td>
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</table>
What Makes You?

• We all have some simple story that defines us.
  – Some Aha Moment, Some break we received, some opportunity we have experienced.

• Recognize the things that make us who we are.
  – Biology, Influences, and indoctrinations.

• Certain issues touch us differently.
  – Sensitivity buttons.
  – Things disgust us to different degrees
What’s Your Story?

“I read dozens of books
About heroes and crooks,
And I learned much
From both of their styles”
-------Jimmy Buffett
A Social Contract

Your expectations of others
- People (in personal and business/public relationships).
- Organizations

Their expectations of you.
- In your personal dealing, and/or
- Your representation and support of your organization (within and without)

Disruption.
- An ethical lapse occurs when a person fails to meet standards of the social contract to which they are a party thus causing their actions to be judged according to that contract.
Codes of Conduct formed by the Contract

Universal/Jurisdictional Defined Laws and Rules
  ◦ Origins in Natural and/or Common Law

Sect—Culturally/Religiously Defined Laws Rules
  ◦ Imago Dei, Natural Law

Institutional/Organizational—Rules established by a group.

Family—established rules

Social Group—established rules
Yet we Live and Work and Prosper

In a society
  ◦ With laws,
  ◦ With rules,
  ◦ With reasonable expectations of goodwill,
  ◦ With reasonable expectations of decency,
  ◦ With changing norms.
Break the Rules of the Social Contract

Jail Time
Civil Fines/Penalties
Excommunicated, Shunned, Dropped from the Church Roles
Terminated, Removed from the profession
Disinherited, Kicked-out, Divorce
Excluded from the play group or club, loss of privileges
Theory of Moral Reasoning

Lawrence Kohlberg

- People at various stages of development answer questions pertaining to certain dilemmas with varying degrees of reasoning.
- Example--Should a civil defense worker leave his post to help his own family members, who may have been injured in a disaster, or should he stay where he is and help others.---The Heinz Dilemma
A Social Contract in Academia?

A Convergence----

Universities are unique entities where multiple influences, agendas, disciplines, cultures, and sub-cultures converge into one.

- Professional and academic organizations represented in higher education have standards unique to the profession. AICPA, ABA, AMA, APA, IIA, ACFE, et al.

Other Standards
- Accrediting Boards, HLC, AAUP, NCAA, Research Compliance Groups
The University

Universitas—“...into one body”

- The University of Bologna; The University of Paris; Oxford University
- Historically---for the past 900 years or so...........
  - Given special, collective legal rights, charters, self-regulating
The higher learning in America: a memorandum on the conduct of universities by business men, 1918

- The purpose of a university’s administration is to see that the faculty has what they need at the time that they need it...
Nine Principles of an Ethical Institution (Plus 1)

James S. Counelis

- **Academic Freedom**
  - The freedom to teach
  - The freedom to learn
  - The moral imperative of truth

- **Organization and Control**
  - Autonomy of the Institution
  - Collegiality of Faculty Decision-Making
  - Civility in discourse

- **Fairness**
  - Tolerance for differing opinions
  - Equity in access
  - Equity in evaluation

- **PLUS 1: Financial Integrity**
  - Stewardship
Academic Freedom

It is the founding principle of the University

The Moral Imperative of Truth
The Freedom to Teach
The Freedom to Learn
Governance

Autonomy
Collegiality of Faculty Decision-Making
Civility in discourse
Fairness

Tolerance for differing opinions
Equity in access
Equity in evaluation
Financial Integrity
We are the fiduciary
Monitored Policy Directives
Drive Policy Performance

Top-down Expectation creates Bottom-up Performance
Organization/Management

Individual
Establishing an Ethical Tone

Personal, Departmental, Divisional, Institutional
- We broadcast our expectations/non-expectations across a wide spectrum.
Here’s a Problem
in Policy Development and Enforcement

There is a disconnect on a very basic level between management and staff.

◦ Staff assumes the ethics of the organization are flawed, but the staff fails to recognize their **ability and obligation** as individuals to influence/create the ethical behavior of the organization.

◦ Create a micro-ethical climate for a macro-ethical behavior.

◦ Management may forget/neglect/postpone their obligation to behave as individuals within the whole.

◦ Create a macro-ethical climate for micro-ethical behavior.

◦ Failure of one does not create an excuse for another

---

*When my fist clinches, Crack it Open*

*Before I use and lose my cool.*

---------*The Who*
When there is an Ethical Breakdown

What is affected when ethics fail?

◦ The Breakdown of Relationships
  ◦ Consider the intra-connectivity of the organization.
  ◦ Consider the symbiotic relationship the organization and the members of the organization have with the greater community.
Problem Expanded

Every individual affects the total organization and the organization’s effectiveness on the expanded community----And the reputation of the organization affects the expanded community’s view of the individual.
Organization’s Eco-System

Everyone Needs Self-awareness and Inter-reliance

◦ Each manager is an individual within the organization.
◦ Every individual is a manager of some area within the organization.
◦ Every individual influences the operation of the organization as well as influences how others (within and without) perceive the organization. THUS:
  ◦ Macro-expectation influences Micro-performance.
  ◦ Micro-performance creates Macro-perception.
The Zen of the Organization

We fail to recognize the “Not two” and create a segmented organization.

It is difficult to separate the individual from the organization. It is difficult to separate the organization from the individual. Yet, we really try to do so.

When a person believes they are truly part of the organization, that the organization needs them, and accepts personal responsibility in maintaining a healthy organization a segmented organization no longer exists.
Five Components of Ethical Decision Making

1. Identifying the Issue
2. Gather the Information for an informed Decision
3. Consider the Outcomes
4. Make the Decision
5. Live with the Decision
   a) Participate in establishing an environment where ethical behavior is expected and encouraged.
   b) Question the intent of an action as well as the action itself.
   c) Hire ethical people.
On Hiring—Be Deliberate

Job Announcement
Resumes/Applications
Reference Checks
Background Checks
Personality Surveys*
Interviews
Ethics Wrap-up

We all have different world views, but there is a basic social contract.

Most of us purposefully strive to do the right thing—Ethics is within each of us.

There is an internal struggle within each of us between righteousness and our self interests.

Higher education is unique

The organization stands as a collective of the individuals and represents the individuals.

Each has a role in directing the organization’s ethical practices.

Pay attention during the hiring process.

May your hands always be busy
May your feet always be swift
May you have a strong foundation
When the winds of change shift
------Bob Dylan
As a lead in to our next session.................................................................

WHY DO PEOPLE—Good people—BREAK BAD?

In between the moon and you,
Angels get a better view
Of the crumbling difference
In wrong and right.

Adam Duritz
The Counting Crows
“Round Here”
FRAUD in the University Culture—entering the Eighth Circle
(with my apologies to Dante)

ROBERT DIXON
OKLAHOMA STATE UNIVERSITY
Acknowledgements

Resources

- Association of Certified Fraud Examiners
- American Institute of CPAs
- David C. Bosserman
- Kevin Robinson
- Kathy K. Elliott
- Brenna T. Dixon
- Dante
- Fraud
  - What constitutes fraud
  - Various types of fraud
- Major factors that can lead to fraud
- How fraud is most often detected
- Fraud deterrence and prevention
What constitutes fraud
Various types of fraud
THE FRAUD TREE

OCCUPATIONAL FRAUD AND ABUSE CLASSIFICATION SYSTEM

Corruption

- Conflicts of Interest
  - Purchasing Schemes
  - Sales Schemes

- Bribery
  - Invoices in Code
  - Bid Rigging

- Blegal Gratuitous

- Economic Extortion

Asset Misappropriation

Financial Statement Fraud

- Not Worth/Not Income
  - Overstated
  - Understated

- Not Worth/Not Income
  - Overstated
  - Understated

- Not Worth/Not Income
  - Overstated
  - Understated

Cash

- Theft of Cash on Hand
  - Shaving
  - Cash Larceny

- Theft of Cash
  - Receipts
  - Refunds and Other

- Fraudulent Disbursements
  - Payroll Schemes
  - Payroll Embezzlement
  - False Employee

- Expense Reimbursement Schemes
  - Expense Reimbursement Schemes
  - False Reimbursement

- Check Tampering
  - False Checks

Inventory and All Other Assets

- Misuse

- Larceny
  - Asset Regulations and Inflations
  - False Sales and Shipping
  - Purchasing and Inventory
  - Uncovered Larceny

- Uncovered Larceny

- Unauthorized Access

- False Refunds
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”

*Corporate Fraud Handbook*, Joseph T. Wells
Fraudulent Statements
- Concealed Liabilities
- Fictitious Revenues
- Improper Asset Valuations
- Improper Disclosures
- Timing Differences
- Non-financial

Corruption
- Conflict of Interest
- Bribery
- Illegal Gratuities
- Economic Extortion

Asset Misappropriation
83.5% 2016 Report
89% 2018 Report
Asset Misappropriation

Cash:
- Larceny
- Skimming
- Fraudulent Disbursements

Inventory & All Other Assets:
- Misuse
- Larceny
Fraudulent Disbursements

- Billing Schemes
- Payroll Schemes
- Expense Reimbursement Schemes
- Check Tampering Schemes
- Register Disbursement Schemes
Payroll Schemes

Payroll schemes
  ◦ Any scheme in which an employee causes his or her employer to issue a payment by making false claims for compensation
    ◦ Employee claims overtime for hours not worked
    ◦ Employee adds ghost employees to the payroll
    ◦ Median loss $90,000
Payroll Red Flags

Multiple/Unrelated employees sharing bank accounts

Multiple/unrelated employees sharing common address

Multiple family members (or unusually close relationships) in same department with “sign-off” authority granted.

High variances from one period to another without reasonable/verifiable explanations

A person unfamiliar to the payroll system check/verify records

Unreconciled Payroll/Benefit accounts

Slow payments to taxing agencies, fringe benefit providers, court systems

Anomalies in payroll records—improper changes in salary levels

Falsified time sheets
Skimming Schemes

Skimming schemes
- Any scheme in which cash is stolen from an organization before it is recorded on the organization's books or records
  - Employee accepts payment from a customer but does not record the sale
  - Understated sales and receivables
  - Theft of check through the mail
  - Median Loss $53,000
Skimming Red Flags

Rising Variances in “costs of goods sold”

Unexplained Write-downs on Inventory records.

Write-offs (discounts) for currently enrolled students or Active Grants

Rising accounts receivables

Variances in daily sales, collections, or deposits
Billing Schemes

Billing schemes

- Any scheme in which a person causes his or her employer to issue a payment by submitting invoices for fictitious goods or services inflated invoices or invoices for personal purchases
  - Employee creates a shell company and bills employer for nonexistent services
  - Employee purchases personal items, submits invoice for payment
  - Median loss $100,000
Billing Red Flags

INCOMING BILLS

Sudden appearance of Unfamiliar vendors or sudden increase in use of a Vendor.
Vendor Complaints
Variances in use of commodities
Conflict of Interest
Appearance of a vendor not necessarily appropriate for work activities

OUTGOING BILLS

Write-offs—variances, types of students, Grant Accounts, customers
Unreconciled accounts
Customer Complaints on missing payments to accounts or delays in processing checks/misapplied checks
Tuition vs Enrollment
Cash Larceny

Cash larceny schemes

- Any scheme in which cash is stolen from an organization after it has been recorded on the organization’s books and records
  - Employee steals cash and checks from daily receipts before they can be deposited in the bank
  - Petty cash, change funds, vault cash
  - Median loss: $80,000
Cash Larceny Red Flags

High $$ student refund checks or refunds to granting agencies
Checks returned to department for disbursement
Inadequate receipts
Increased use of Pcard by individual (relatively speaking)
Write-offs
Unusual activities in drop/withdrawal refund activities
Customer/Student complaints
Missing inventory or equipment
Expense Reimbursement Schemes

Expense reimbursement schemes

- Any scheme in which an employee makes a claim for reimbursement of fictitious or inflated business expenses

  - Employee files fraudulent expense report, claims personal travel, nonexistent meals, “drinks a taxi fare,” etc.
  - Median loss $26,000
Expense Reimbursement Red Flags

Unfolded or pristine invoices/receipts

Lack of invoices/receipts or numerous claims for reimbursement below the receipt-required threshold.

Unreasonable costs assigned to a particular event (Taxi Fare, Lunch)

Failure to itemize receipts or misappropriate expenses
Check Tampering Schemes

Check tampering schemes

- Any scheme in which a person steals his or her employer’s funds by forging or altering a check on one of the organization's bank accounts, or steals a check the organization has legitimately issued to another payee
  - Employee steals blank company checks, makes them out to himself or an accomplice
  - Forged maker, forged endorsement, altered payee, authorized maker schemes
- Median loss $158,000
Check Tampering Red Flags

Someone brags on their ability to sign the “bosses” name

Customer/Student complaints on not receiving check.

One person writes, records, and reconciles bank account (think about a petty cash fund)

“Confidential human subjects”

Someone has the ability to manipulate a dataset without oversight/sign-off

Non-inventoried check stock.

Excess number of manual checks instead of “system” checks

Department insists on picking up check.

“Send-to” address is out of character to vendor address or varies from invoice address.
Non-Cash Schemes

Any scheme in which an employee steals or misuses non-cash assets of the victim organization

◦ Employee steals inventory from a warehouse or storeroom
◦ Employee steals or misuses confidential customer financial information
◦ Median loss $70,000
Non-Cash Red Flags

Motor pool vehicles are routinely gone on the weekend/holiday period.
Inconsistent checks on inventory of equipment
Incomplete log records. (Mileage and/or check out)
Continuous loss and replacement of small tools, equipment, etc.
Inconsistency in application of store/recharge rates.
<table>
<thead>
<tr>
<th>Scheme</th>
<th>Number of Cases</th>
<th>% of Cases</th>
<th>Number of Cases</th>
<th>% of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billing</td>
<td>45</td>
<td>34.1%</td>
<td>35</td>
<td>9.5%</td>
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<tr>
<td>Cash Larceny</td>
<td>18</td>
<td>13.6%</td>
<td>41</td>
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<tr>
<td>Cash on Hand</td>
<td>23</td>
<td>17.4%</td>
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<td>Check Tampering</td>
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<td>Financial Statement Fraud</td>
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<td>5.3%</td>
<td>44</td>
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<td>39</td>
<td>10.6%</td>
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<td>1.5%</td>
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<tr>
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<td>33</td>
<td>25.0%</td>
<td>25</td>
<td>6.8%</td>
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## Industries: Education (96 Cases) and Banking & Financial Services (338 Cases)

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Education</th>
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<th>Banking &amp; Financial Services</th>
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<td>6%</td>
<td>41</td>
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<td>Corruption</td>
<td>36</td>
<td>38%</td>
<td>122</td>
<td>36%</td>
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<td>Expense Reimbursements</td>
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<td>Financial Statement Fraud</td>
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<td>Non-Cash</td>
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<tr>
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<td>13</td>
<td>14%</td>
<td>30</td>
<td>8%</td>
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</table>
Major factors that can lead to fraud
Fraud Triangle

- Developed by Dr. Donald R. Cressey
Fraud Triangle
Fraud Diamond
Fraud Pentagon
Fraud Scale
The Accidental Fraudster
Incentive
Perceived Opportunity
Arrogance
Personal Integrity
Pressure
Rationalization
Criminal Mindset
The Predator
Fraud Diamond?

Incentive

Rationalization

Perceived Opportunity

Capability

David T. Wolfe and Dana R. Hermanson
Fraud Diamond?
Fraud Diamond?

Perceived Opportunity

The Accidental Fraudster

The Predator

Pressure

Rationalization

Criminal Mindset

Arrogance

<table>
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<tr>
<th></th>
<th>ACFE – 2018 Report to the Nations</th>
<th>KPMG – Global Profiles of the Fraudster</th>
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</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td>69.0% Male 31.0% Female</td>
<td>79% Male 17% Female 4% Unknown</td>
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<tr>
<td><strong>Age</strong></td>
<td>5% Under 26 10% 26-30 15% 31-35 19% 36-40 19% 41-45 14% 46-50 9% 51-55 6% 56-60 3% Over 60</td>
<td>1% 18-25 14% 26-35 37% 36-45 31% 46-55 8% Over 55</td>
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<tr>
<td><strong>Tenure</strong></td>
<td>9% Less than 1 year 44% 1 – 5 years 23% 6 – 10 years 24% More than 10 years</td>
<td>2% Less than 1 year 19% 1 – 4 years 14% 4 – 6 years 38% More than 6 years</td>
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<tr>
<td><strong>Position</strong></td>
<td>44% Employee 34% Manager 19% Owner/Executive 3% Other</td>
<td>32% Management 26% Executive – Director 20% Staff Member 5% Executive – Corp Officer 3% Non-Executive Director 3% Other 2% Owner / Shareholder</td>
</tr>
</tbody>
</table>
Behavioral Red Flags

- Living beyond means
- Financial difficulties
- Unusually close association with vendor / customer
- Wheeler-dealer attitude
- Control issues, unwilling to share duties
- Divorce / Family problems
- Irritability, suspiciousness, or defensiveness
- Addiction problems
- Complained about inadequate pay

- No behavioral red flags
- Refusal to take vacations
- Excessive pressure from within organization
- Past employment-related problems
- Social Isolation
- Past legal problems
- Excessive family / peer pressure for success
- Complained about lack of authority
- Instability in life circumstances
## Primary Internal Control Weaknesses Observed

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<thead>
<tr>
<th>ACFE – Report to the Nations</th>
<th>2016</th>
<th>2018</th>
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<tr>
<td>Lack of Internal Controls</td>
<td>29.3%</td>
<td>30%</td>
</tr>
<tr>
<td>Override of Existing Controls</td>
<td>20.3%</td>
<td>19%</td>
</tr>
<tr>
<td>Lack of Management Review</td>
<td>19.4%</td>
<td>18%</td>
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<tr>
<td>Poor Tone at the Top</td>
<td>10.4%</td>
<td>10%</td>
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<tr>
<td>Lack of Competent Personnel in Oversight Roles</td>
<td>6.4%</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>5.9%</td>
<td>6%</td>
</tr>
<tr>
<td>Lack of Independent Checks/Audits</td>
<td>4.2%</td>
<td>4%</td>
</tr>
<tr>
<td>Lack of Employee Fraud Education</td>
<td>2.0%</td>
<td>2%</td>
</tr>
<tr>
<td>Lack of Clear Lines of Authority</td>
<td>1.6%</td>
<td>1%</td>
</tr>
<tr>
<td>Lack of Reporting Mechanism</td>
<td>0.5%</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KPMG – Global Profiles of the Fraudster</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Weak Internal Controls</td>
<td>61%</td>
</tr>
<tr>
<td>Reckless Dishonesty Regardless of Controls</td>
<td>21%</td>
</tr>
<tr>
<td>Collusion Circumventing Good Controls</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>
How fraud is most often detected
The median length of time a fraud went undetected was 18 months.

2018 – 16 months
## Initial Detection of Occupational Fraud

<table>
<thead>
<tr>
<th>Method</th>
<th>2016 (%)</th>
<th>2018 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tip</td>
<td>39.1</td>
<td>40</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>16.5</td>
<td>15</td>
</tr>
<tr>
<td>Management Review</td>
<td>13.4</td>
<td>13</td>
</tr>
<tr>
<td>By Accident</td>
<td>5.6</td>
<td>7</td>
</tr>
<tr>
<td>Account Reconciliation</td>
<td>5.5</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>5.5</td>
<td>6</td>
</tr>
<tr>
<td>Document Examination</td>
<td>3.8</td>
<td>4</td>
</tr>
<tr>
<td>External Audit</td>
<td>3.8</td>
<td>4</td>
</tr>
<tr>
<td>Notified by Police</td>
<td>2.4</td>
<td>2</td>
</tr>
<tr>
<td>Surveillance/Monitoring</td>
<td>1.9</td>
<td>3</td>
</tr>
<tr>
<td>IT Controls</td>
<td>1.3</td>
<td>1</td>
</tr>
<tr>
<td>Confession</td>
<td>1.3</td>
<td>1</td>
</tr>
</tbody>
</table>
## Source of Tips

<table>
<thead>
<tr>
<th>Source</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>51.5%</td>
<td>53%</td>
</tr>
<tr>
<td>Customers</td>
<td>17.8%</td>
<td>21%</td>
</tr>
<tr>
<td>Anonymous</td>
<td>14.0%</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>12.6%</td>
<td>5%</td>
</tr>
<tr>
<td>Vendor</td>
<td>9.9%</td>
<td>8%</td>
</tr>
<tr>
<td>Shareholder /Owner</td>
<td>2.7%</td>
<td>2%</td>
</tr>
<tr>
<td>Competitor</td>
<td>1.6%</td>
<td>3%</td>
</tr>
</tbody>
</table>

29.3% to 32%
Fraud Deterrence and Prevention
What is Fraud Deterrence?

• Protecting the Organization
  – Internal Controls
  – Risk Assessments
  – Tone at the Top (and Tone at the Middle)
  – Reporting Procedures
  – Heighten Awareness
  – Move from being reactive to being proactive
  – Monitor, Monitor, Monitor, Monitor, Monitor, Monitor, Monitor...
What is Fraud Prevention?

• Fraud prevention requires a system of rules, which in their aggregate, minimize the likelihood of fraud occurring while maximizing the possibility of detecting any fraudulent activity that may transpire.
The biggest deterrence to fraud is... the perception of detection.
Most experts agree that it is much easier to prevent fraud than detect fraud.
• “Oh, that could never happen here, we have a policy against it.”
What types of transactions provide the greatest risk?
What can go wrong?
What is the likelihood of occurrence?
What is the potential impact?
What potential risk areas could cause adverse publicity?
The Perpetrator

Before
  ◦ Oh, what a tangled web we weave when first we practice to deceive
  ◦ ......But once we’ve practiced for awhile, Oh my, how we’ve improved our style!

After
  ◦ I remember sitting in your office ashamed, hopeless, afraid, and grieving over the pain my selfish decisions had caused to my coworkers, my employer, my family, and myself.

All hope abandon, ye who enter in.......... 

Dante
The People Who Can Hurt You the Most are the People You Trust the Most!
Be Inquisitive

During a review of the Bursar’s daily deposits you note a significant number of
the deposits have very little cash included

The other deposits have large cash amounts

All deposits balance to the cashiers’ daily reconciliations

Would this be of concern to you?
WHAT CAN WE DO

Be Inquisitive

Management Review of Internal Controls

Surprise Audits

Fraud Training

Anti-Fraud Policy

Fraud Examiner Department
QUESTIONS?

“TRUE CHARACTER IS DEFINED BY WHAT YOU DO WHEN NO ONE IS LOOKING.”

ANON