

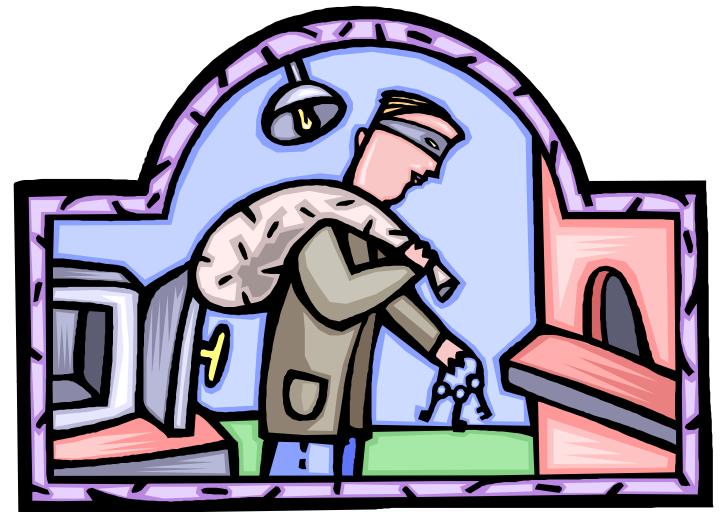
Fraud Awareness and Prevention

Presenters:

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RARA and River Rats
December 2019

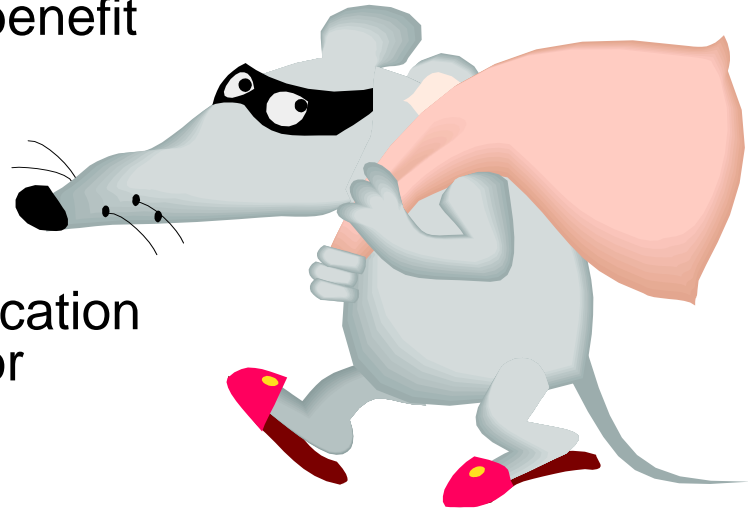


Introduction / Purpose

- By the end of this presentation:
 - Your awareness about fraud will be heightened
 - You will gain some insight into the fraudster's frame of mind
 - You will know what actions to take if you suspect fraud
 - You will learn about OUA's Data Analytics Program (DA) to detect potential inappropriate activity

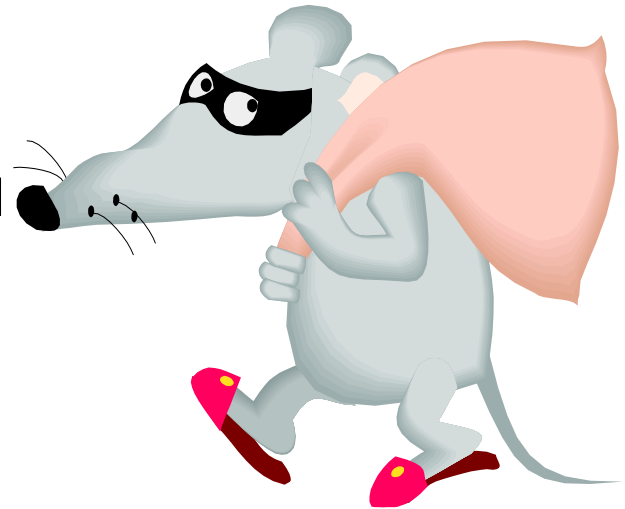
What is Fraud?

- **Fraud definition**
 - Intentional misrepresentation
 - Victim suffers monetary or property loss
 - Person wrongfully obtains a benefit
- **Occupational Fraud definition**
 - Use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employer's resources or assets



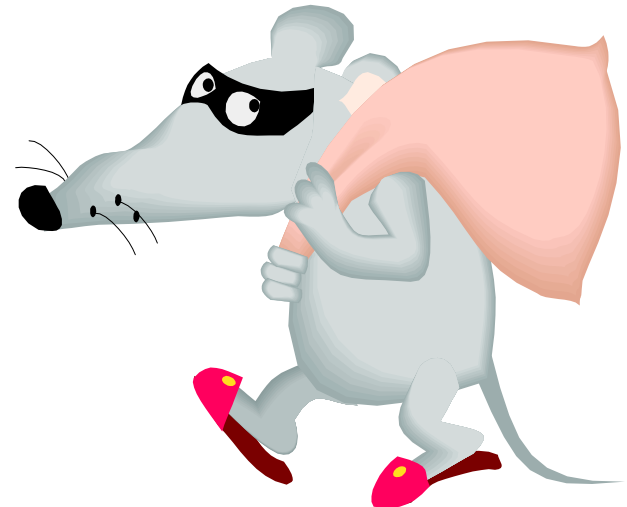
Cost of Fraud to Organizations

- Estimated at 5% of annual revenue by survey participants (from the Association of Certified Fraud Examiners' 2018 Annual Report to the Nation)
 - The total loss by all cases in the study was \$7 billion.
- Bad news – fraud cannot be prevented
 - Good news - you are not powerless; you can take action to reduce the risk of fraud



Why Should you be Concerned about Fraud?

- Fraud is increasing
- Everyone has responsibility to protect University assets
- Innocent staff may be affected by fraud in their area
- Counterproductive to the area impacted
- Applicable laws and regulations
 - Federal Civil False Claims Act and whistleblower law
 - Fiduciary responsibility to taxpayers (grant money)/donors
 - SAS 99 requires external auditors to plan audits to detect fraud



Fraud in the News

- Dec 12, 2008 - The shocking revelation that prominent investment manager **Bernard Madoff's** hedge fund, was a giant Ponzi scheme later estimated at \$18 billion.
- December 9, 2010 - **Nun** Is Arrested for Allegedly Stealing \$1.2-Million from Iona College.
- April 2012 - **Rita A. Crundwell** , comptroller and treasurer of Dixon, Illinois fired for what is believed to be the largest municipal fraud in American history. She had embezzled \$53.7 million from the city over **22 years** to support her championship American Quarter Horse breeding operation.
- July 23, 2013 - Former University of Rochester administrator pleaded guilty to conspiracy charges in federal court. She admitted to her role in a \$3.9 million scheme to defraud the University of Rochester Medical Center and a Buffalo medical practice.

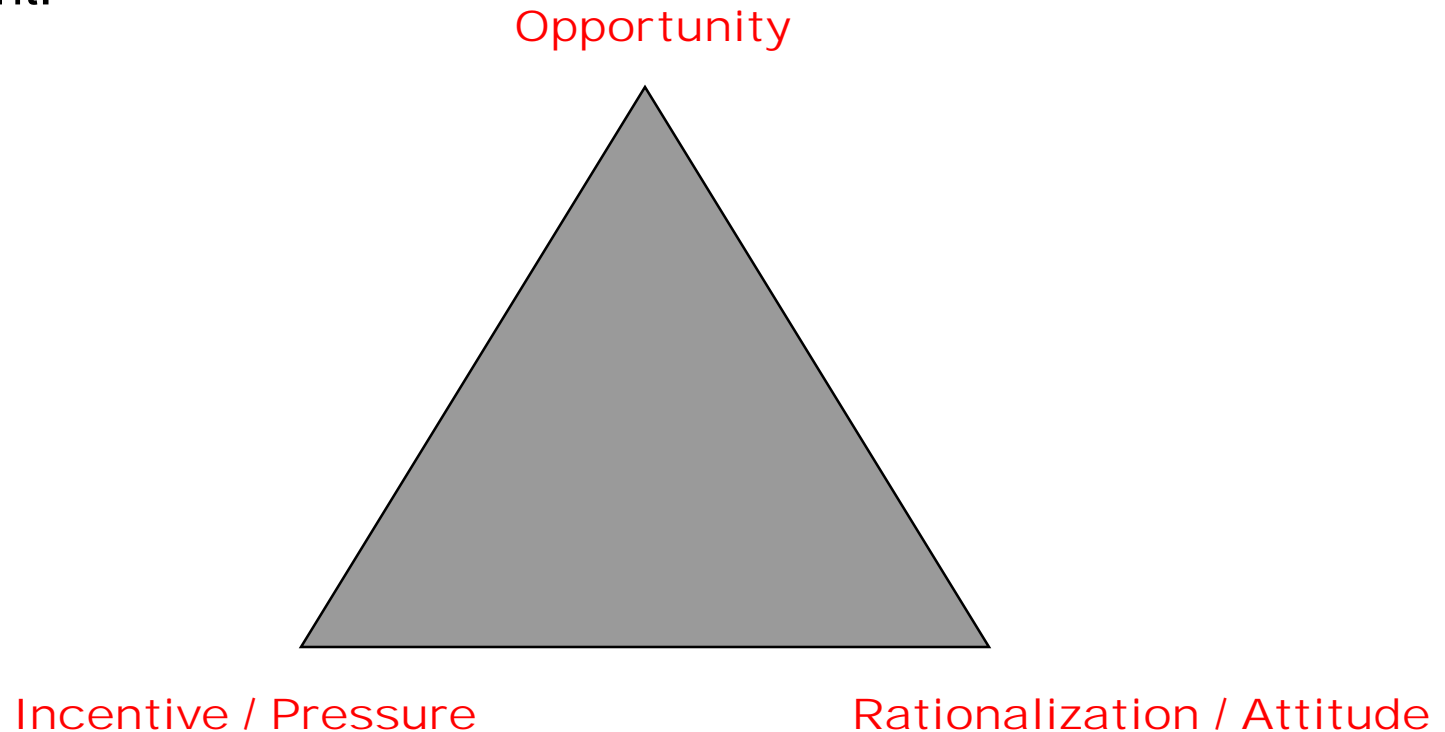
Who Typically Commits Fraud and Why?

- Classic characteristics of person who commits fraud
 - Lifestyle
 - Work habits
 - Attitude (“I deserve mentality”)
 - Repeat offender
 - Works alone
 - Reluctance to take vacations



Who Typically Commits Fraud and Why?

The Fraud Triangle depicts the three conditions that foster a fraudulent environment:



The key to mitigating risk of fraud is to significantly reduce *OPPORTUNITY*.

Good People Making Bad Choices ?

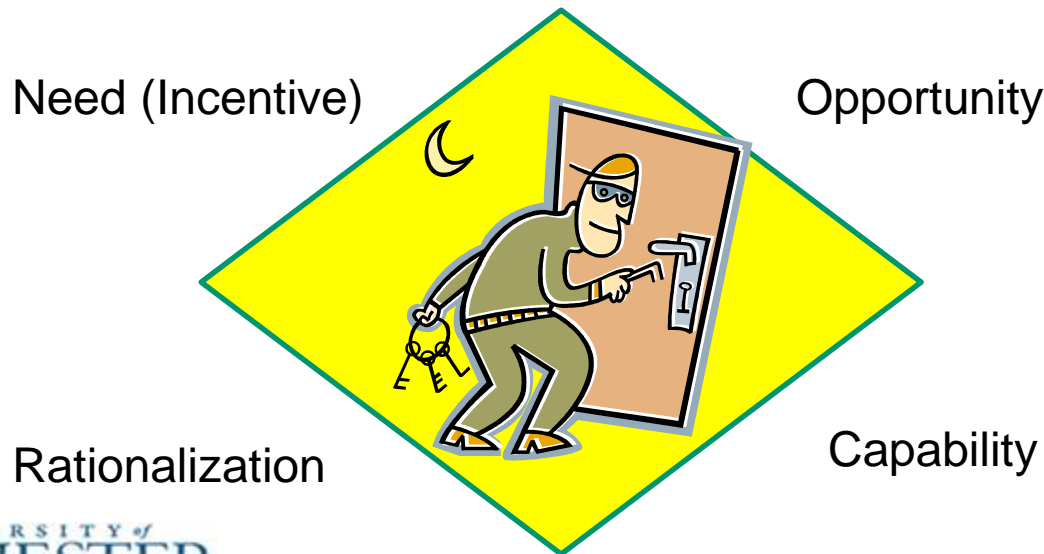
- Pressure and Rationalization cannot be observed.
- Fraudsters do not view themselves as criminals.
- They rationalize their misdeeds before committing them

“I’m just going to borrow it.”
“Or I have worked hard and deserve it”



It Takes All Types

An individual has to be **capable** (willing) – their personal traits play a role in whether fraud will actually occur given the presence of need, opportunity and rationalization.



Common Myths About Fraud

- It can't happen on *MY* watch
- No one would do that here...
- We have an excellent accounting system
- My accounting clerk is my best employee



Common Myths About Fraud

- Problem employees are likely suspects



Common Myths About Fraud

- We don't handle cash – What's to steal?
- Checks cannot be stolen... because I have tried to cash a check made out to my husband, child, etc... the teller would not cash it even though they signed it over to me.
- You cannot set-up a “shell” company to funnel fraudulent funds through. The Patriot Act stops that.
- Internal controls prevent collusion.

ABC Computer Company We have the lowest prices in town on computer equipment and computer services!		INVOICE	
PO Box 288321 Fairport NY 14450 1-888-247-5122		DATE: June 28, 2019 INVOICE # 96 FOR: computer equipment	
Bill To: Sue Smith U of R 601 Elmwood Avenue Rochester NY 14642 575-2122		Tax ID: 16-4435	
DESCRIPTION		AMOUNT	
10 Dell Optiplex		\$	12,400.00
Tax Exempt			
		TOTAL	\$ 12,400.00
Make all checks payable to ABC Computer Company			
If you have any questions concerning this invoice please send an email to ABC Company @g.mail.com			
THANK YOU FOR YOUR BUSINESS!			

ABC Computer Company We have the lowest prices in town on computer equipment and computer services!		INVOICE	
PO Box 288321 Fairport NY 14450 1-888-247-5122		DATE: September 15, 2019 INVOICE # 100 FOR: computer equipment	
Bill To: Sue Smith U of R 601 Elmwood Avenue Rochester NY 14642 575-2122		Tax ID: 16-4435	
DESCRIPTION		AMOUNT	
5 Dell Optiplex		\$	6,200.00
Tax Exempt			
		TOTAL	\$ 6,200.00
Make all checks payable to ABC Computer Company			
If you have any questions concerning this invoice please send an email to ABC Company @g.mail.com			
THANK YOU FOR YOUR BUSINESS!			

Common Fraud Methods

- Asset Misappropriation – More than 89% of fraud (data from 2018 ACFE Report to the Nation on Occupational Fraud & Abuse).
- The asset most commonly targeted in asset misappropriation is cash (cash includes not only currency, but also checks and money orders).

Common Fraud Methods?

- Cash Schemes:
 - Skimming Revenues - Cash (includes cash/checks) is stolen from the organization **before** it is recorded on the organization's books.
 - Cash Larceny - Cash (includes cash/checks) is stolen from the organization **after** it is recorded on the organization's books.

Common Fraud Methods

- Expense Reimbursement Schemes:
 - Mischaracterized Expenses – Employee submits receipts for personal expenses but concocts business reason for costs (i.e. expenses for dinner listed as business meeting with names of staff who were not at dinner and meal was actually personal.)
 - Overstated Expenses – Employee overstates expenses by altering receipts.
 - Fictitious Expenses – Employee submits wholly fictitious expenses (i.e. reimbursement for participants that are fictitious, falsification of mileage to participants' homes).

What are some Other Fraud Methods?

- **Billing Schemes:**
 - A fraudster causes the victim organization to issue a payment by submitting invoices for fictitious goods or services, inflated invoices, or invoices for personal purchases.
- **Payroll Schemes:**
 - An employee causes the victim organization to issue a payment by making false claims for compensation.
- **Other methods of Fraud:**
 - Credit Card Fraud
 - Identity Theft (including medical identity theft)

Non-Cash Methods

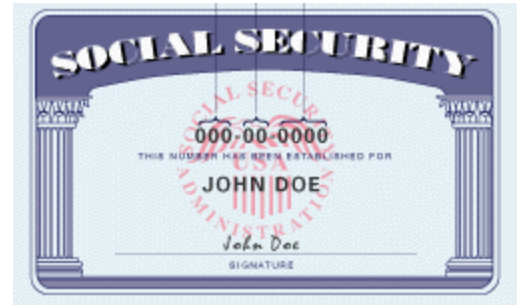
Schemes involving **non-cash** assets are much less common, but more costly, on average

- Inventory
- Fixed Assets
- Insurance Claims
- Conflict of interest resulting in personal benefit



Non-Cash Methods (cont.)

- Copyright Infringement
- Intellectual Property
- Proprietary/Confidential Information
- **Social Security Numbers**
- Credit Card Numbers
- Customer/Employee/Student Data



Legislation to Protect Information is Increasing

- FERPA (1974)
- Health Insurance Portability & Accountability Act (1996)
- Gramm-Leach-Bliley Act (1999)
- Sarbanes-Oxley Act (2002)
- Federal Information Security Management Act (2002)
- Payment Card Industry Data Security Standard (2004)
- NYS Information Security Breach and Notification Act (2005)
- NYS SSN Protection Law (2006)

How can you Reduce Fraud Risk?

Examples of preventive controls:

- Segregation of duties
- Management oversight
- Authorization/approvals
- System access controls
- Physical Access Controls

How can you Reduce Fraud Risk?

- Segregation of duties
 - Is an important element of internal control for preventing or reducing the occurrence of fraudulent activity.
 - The four general functions that should be performed by separate individuals include:
 - authorization
 - custody
 - record keeping
 - reconciliation

How can you Reduce Fraud Risk?

Segregation of duties (continued):

- No one person should have control over two or more of the four functions.
 - Ensures that a person is not in a position to initiate and conceal an error or irregularity.
- If duties cannot be segregated, compensating controls (i.e. increased management oversight) should be established.

How can you Reduce Fraud Risk?

Examples of detective controls:

- Account reconciliation and review
- Budget vs. actual analysis
- Exception reports
- Complaints/tips/hot-line calls
- Job rotations
- Mandatory vacations

How can you Reduce Fraud Risk?

- Account reconciliation and review
 - Reconciliation reviewer should be independent of the billing, collection, and purchasing process
 - Reviewer should have sufficient knowledge of the process to be effective and able to identify integrity of transactions
 - Reviewer should consult with supervisor for certain business expenses (i.e. employee mileage reimbursement)
 - Guidance for reconciliation resides on the OUA website <https://www.rochester.edu/adminfinance/audit/FAOManagement-InternalControls-Feb2017.pdf>

Initial Detection Methods

	<u>%</u>
Tips	40%
Internal Audit	15%
Management review	13%
By Accident	7%
Account Reconciliations	5%
Document Examination	4%
External Audit	3.8%
All Others(Surveillance, Law Enforcement, etc.)	12.3%

Per the ACFE 2018 Report to Nations

Initial Detection Methods

	<u>UR</u>	<u>%</u> <u>UR\$</u>
Internal Audit	3.6%	76.8%
Account Reconciliations	28.6%	2.5%
Management Review	25.0%	7.5%
Tips	17.8%	6.4%
By Accident	14.3%	6.6%
Notified by Police/Patient	10.7%	0.2%

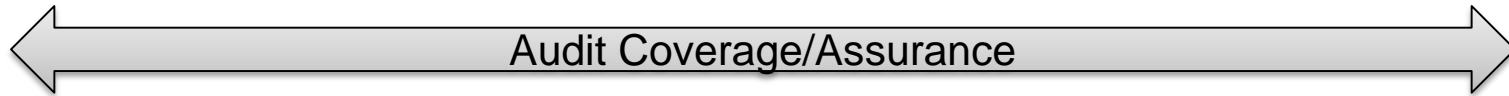
27 cases—APPROXIMATELY \$2.6 MILLION

Objectives of OUA's Data Analytics Program

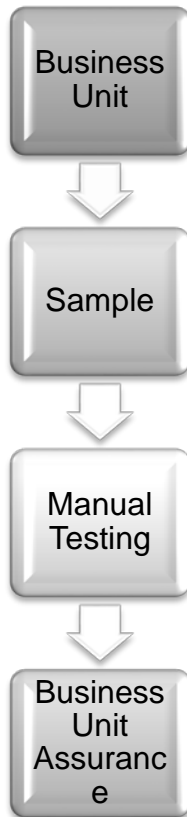
The objectives of OUA's DA program are as follows:

- **Provide continuous assurance to the board and senior leadership**
- **Obtain greater audit coverage, utilizing less audit resources**
- **Maintain a University wide perspective for continuous risk and control assessment**
- **Increase the likelihood of detecting errors, non-compliance, control deficiencies and fraud**
- **Increase the likelihood of identifying areas of significant risk and opportunities for cost recovery/savings**
- **Enable management to increase oversight and better mitigate risk**

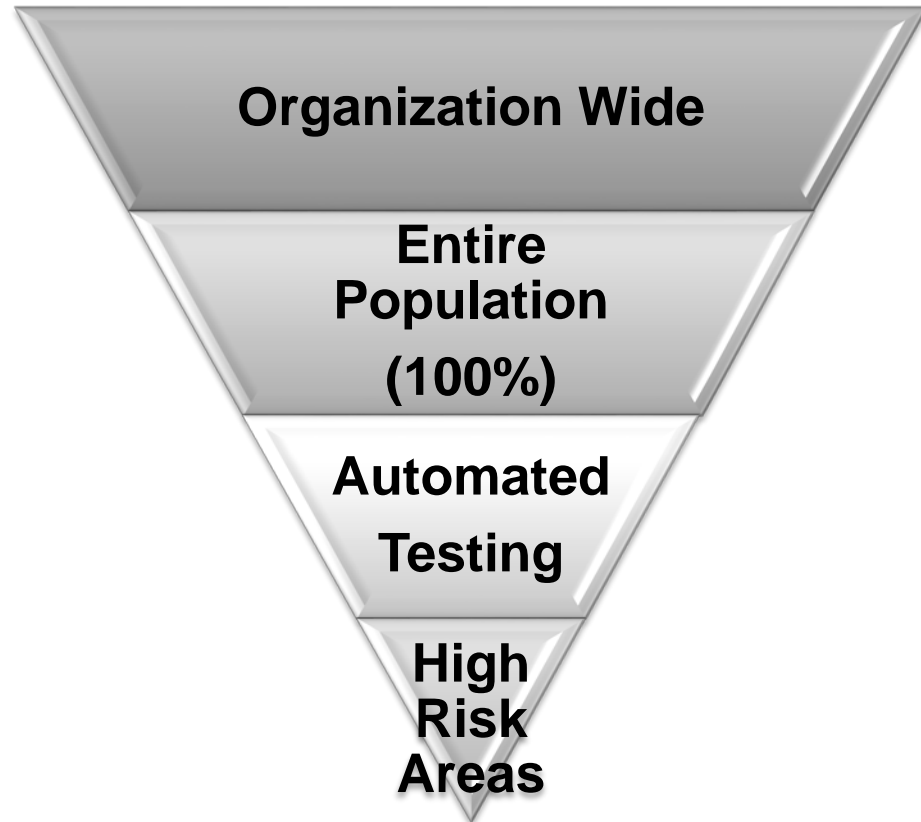
Audit Methodology Comparison



Traditional Audit



Data Analytics



Analytic Examples

Some examples of analytics used to identify inappropriate activity:

➤ AP Analytics

- Duplicate T&E
- Duplicate Supplier Invoice
- P-Card/Petty Cash/Supplier Invoice Reimbursed through T&C
- Employee/Vendor Address/Bank Account Match
- Terminated Employee Expenditures (P-Card, T&C, Petty Cash)
- Corporate Card Credits Reimbursed through T&C
- Top T&E Spend by Job Titles
- Benford's Law Analysis

➤ Ghost Employees (Fraud)

- Payments to employees not in employee master file
- Multiple payments to same bank account, different employee
- Duplicates of employee name & address
- Payments with no tax/benefit deductions
- Payments to employees with an employment duration under 30 days
- Payments remitted to the same bank account as a vendor
- Blank fields in Employee Master File

➤ P-Card Analytics

- Missing Support, Not Approved, Sales Tax, Key word search

Recap

To prevent fraud there should be :

- A strong system of internal control preferably preventive controls (i.e. one level up approvals, adequate segregation of duties, management oversight, system access controls, physical access controls)

Remember - implementing basic controls – securing cash and limiting access, segregation of duties, and preparing and reviewing reconciliations are key

Contact Information

University Audit: x52291

<https://www.rochester.edu/adminfinance/audit/>

Public Safety: x53333

<http://www.publicsafety.rochester.edu/>

URMC Compliance Office: x51609

<https://www.urmc.rochester.edu/compliance-office.aspx>

Integrity Hotline: 756-8888

Conclusion

- Be aware, protect your information.
- Trust is NOT an internal control, but it is a very important aspect of an employee-employer relationship. Therefore: Trust, but Verify!

Questions??

