

Fraud Prevention: How to Identify and Protect Your Higher Ed Institution

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Create Opportunities

Learning Objectives

- At the end of this session, you will be able to:
 - Gain an understanding of what fraud is
 - Understand the reasons for why fraud occur
 - Name the “top” frauds/schemes targeting higher education institutions
 - Explain the potential impact of fraud on an institution
 - Identify methods to prevent fraud in your institution

What is fraud?



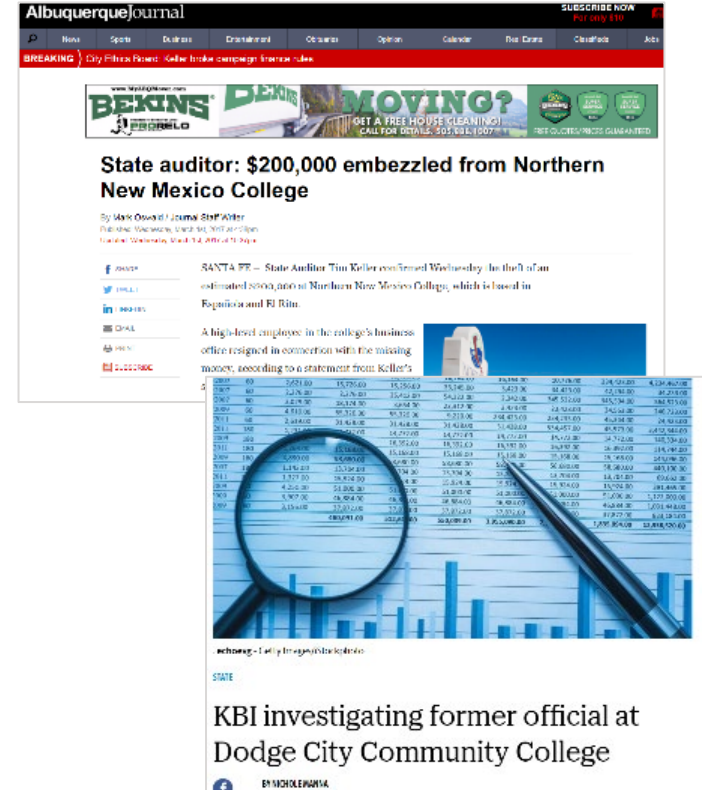
Fraud in Education

- The question is not if it is happening ...The question is at what level of fraud and how often!
- What are you doing to prevent and detect fraud?
- Why is this important in public institutions?
- Three industries with highest events of fraud are:
 - Higher Education
 - Government Entities
 - Religious Institutions



Fraud in Education – Recent Examples

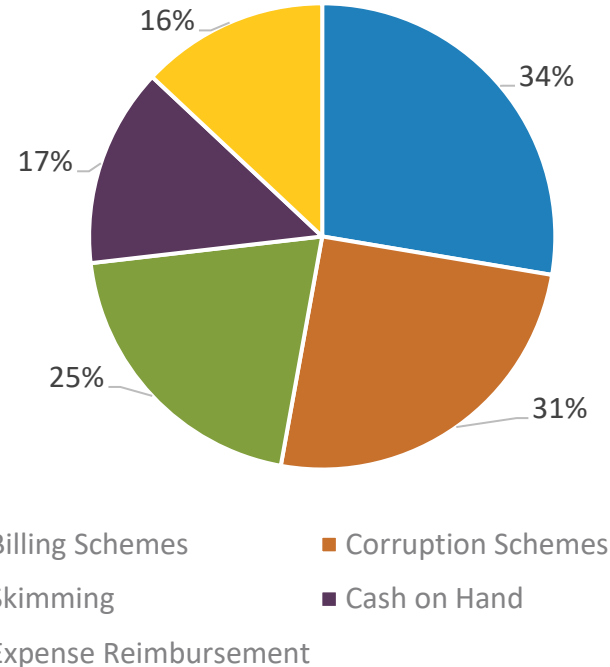
- Embezzlement of at least \$200K by former finance director at Northern New Mexico College – October 13, 2017
- A tenured Medgar Evers College (New York) professor accused of selling sham health care certificates to students for years – October 2, 2017
- Southern Oregon University loses \$1.9 million in email scheme – June 8, 2017
- Timesheets prepared fraudulently for a southern university. Inappropriate reporting cost the University \$17M.
- Facilities manager admits to stealing \$36K – January 2019



Fraud In Education- As reported by the ACFE

Most Common Fraud Types

- Association of Fraud Examiners (ACFE)
- World's largest anti-fraud organization and premier provider of anti-fraud training and education
- 2016 Report to the Nations on Occupational Fraud and Abuse reported:
 - 132 cases of occupational fraud in education



Fraud In Education: Five Facts of Fraud

- 5% of annual revenue is lost to fraud
- Fraud in education is one of the top five industries affected by fraud (behind banking, government, manufacturing, and healthcare)
- Stronger internal controls minimizes risk of fraud
 - Trust is **NOT** an internal control
- Tips are the most common detection method
- **Anyone** can commit fraud



Common Situations – Is this Your Institution?

- “But Judy is the only person handling cash. It’s very efficient that way”
- “John has access to change pay rates, but someone else would catch that”
- “I sign every check so there can’t be fraud”
- “I only trust Joe with that task”
- “Suzie would never do that to me....”



Fraud Controls – Cost/Benefit: Where is your institution's risk tolerance?

*In general, as **control and security** increases:*

***performance** decreases*



Impact of Fraud – More than Just Money

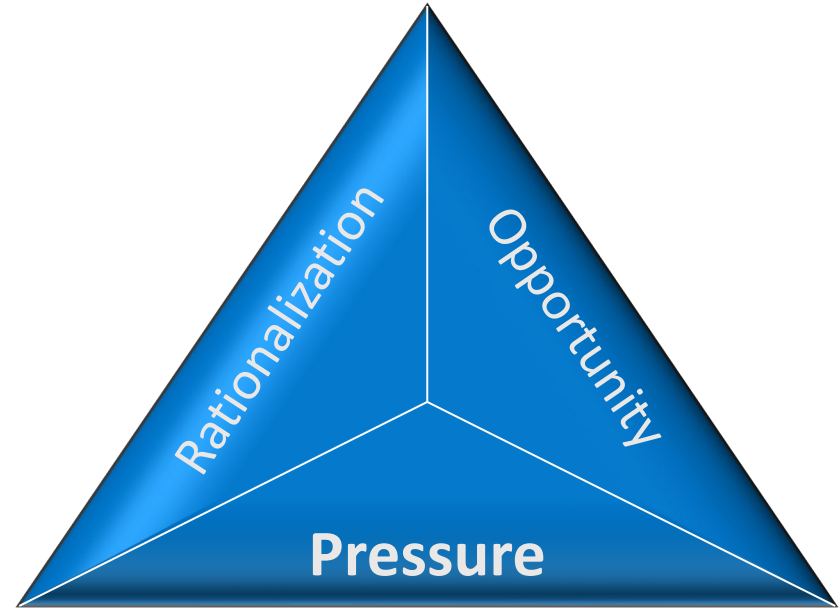
- Monetary (losses that may or may not be recovered and costs and time spent of investigation/litigation)
- Loss of confidence from stakeholders (students – current and prospective, staff, auxiliary organizations, board members, donors.....)
- Reputation (newspapers, TV news, social media) – length of time and effort needed to restore reputation



Why do People Commit Fraud

Pressure – reason to commit fraud

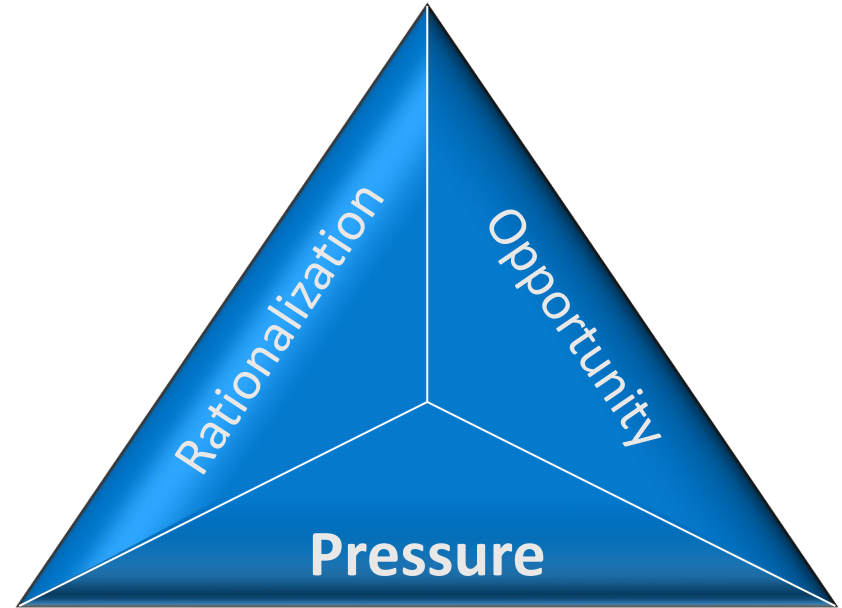
- Most of the time, pressure comes from a significant financial need/problem.
- Often this need/problem is non-sharable in the eyes of the fraudster.



Why do People Commit Fraud (Continued)

Opportunity – the ability to commit fraud

- Opportunity is created by weak internal controls, poor oversight, and/or through use of one's position and authority.
- Opportunity is the leg that institutions have the most control over.



Why do People Commit Fraud (Continued)

Rationalization – justifying the fraud

- Some common rationalizations for committing fraud are:
 - The person believes they will lose everything;
 - The person believes that no help is available from outside;
 - The person labels the theft as “borrowing”, and fully intends to pay the stolen money back at some point;
 - The person believes that something is owed to him/her



Red Flags

Some commonly seen red flags of fraud...

- Significant changes in behavior patterns
- Criminal or questionable background
- High personal debts or financial losses
- Inadequate income for lifestyle
- Addictions (gambling, drugs, etc.)



Red Flags (Continued)

Some commonly seen red flags of fraud...

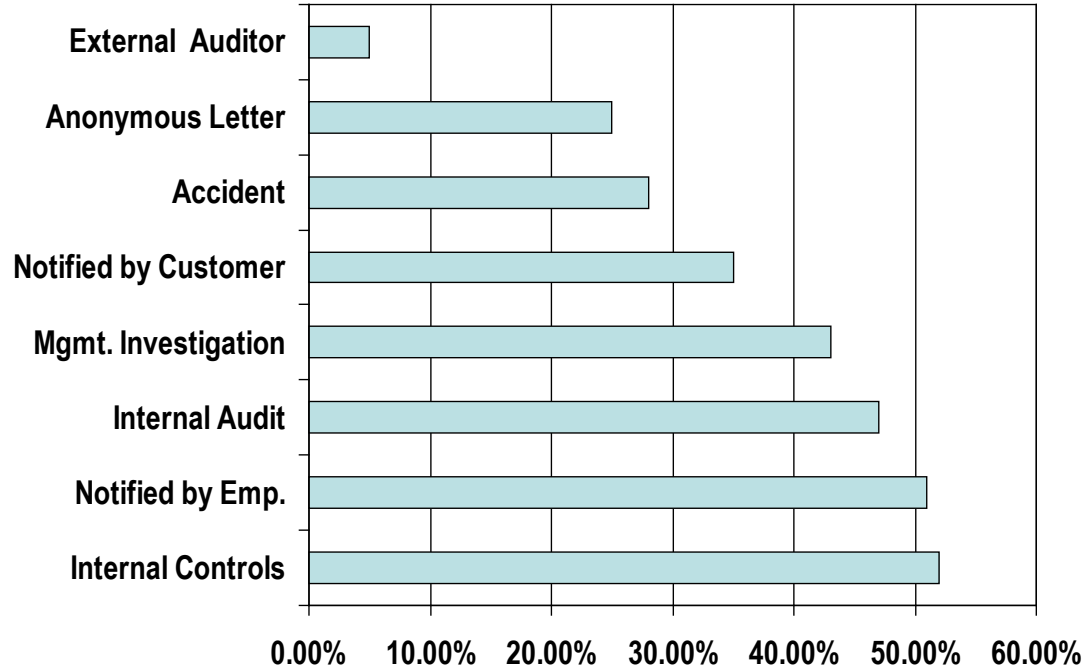
- Resentment of superiors and frustration with job
- Undue family, company, or community expectations
- Emotional trauma in home or work life
- Exerts control over financial information, refuses assistance, rebukes questions
- Pressure to allocate time to certain funding sources

Preventative Controls vs Detective Controls

- **Preventative controls:** are in place so as to stop fraud from happening. Therefore preventative measures are intended to secure the organization and its processes against fraud.
- **Detective controls:** are intended to find problems within an organization's processes. Detective controls may be employed in accordance with many different goals such as quality control, fraud prevention and legal compliance



How is Fraud Detected?



Fraud in Education - Most Common Fraudulent Activities

1. Fake Vendor Fraud
2. Employee Expense Reports Fraud
3. P-Cards Fraud
4. Wire Fraud
5. Donations Fraud
6. Multiple Check Deposits
7. Contract and Procurement Fraud
8. Financial Aid Fraud
9. Timesheet Fraud
10. Off-Site Cash, Check and Credit Card Fraud

1. Fake Vendor Fraud

- **Tips for institutions of higher learning to safeguard against fake vendor fraud**
 - Segregation of duties
 - ◇ Vendor setup
 - ◇ Changes to vendor records
 - Vendor database management
 - Vendor activity review processes
 - Testing the system



2. Employee Expense Reports Fraud

- **Tips for institutions of higher learning to safeguard against employee expense report fraud**
 - Ensure a proper review process is in place for all employees (including the President)
 - Establish a training program for reviewers/authorizers
 - Properly establish control policies
 - Review of expense report activity
 - Sample testing
 - Compare expense report activity to P-Cards



3. P-Cards Fraud

- **Tips for institutions of higher learning to safeguard against P-Card fraud**
 - Implement a training program for users and reviewers of P-Cards
 - Strong and detailed review of P-Card statements
 - Require that no personal use of cards are allowed
 - Limit the aggregate monthly P-card charges based on employee position
 - Properly established policies
 - ◇ Who should receive?
 - ◇ Restrictive limits
 - ◇ Proper use
 - ◇ Detailed receipts
 - Annual review of P-Card activity year over year
 - Sample tests



4. Wire Fraud

- **Tips for institutions of higher learning to safeguard against wire fraud**
 - Require all wires to be sent to preauthorized vendor or receiver bank accounts
 - Validation is extremely important for all email requests! Verify the authenticity of the requester by speaking to them directly. Never disclose sensitive information without proper approvals and authentication.
 - Require all changes to vendor payment locations and account information include a second authorization
 - Require positive ID for all transfers through use of passwords and two factor authentication or verification.
 - Require two approvals from authorized personnel and limit those with approval authority
 - Educate employees and students on what to look out for and how to avoid being a victim.



5. Donations Fraud

- **Tips for institutions of higher learning to safeguard against donation fraud**
 - Use donors' egos as a control
 - Utilize two employees and a log as mail is opened
 - Send notes to donors who have donated in the past but not in the current year
 - Providing gifts to donors of certain thresholds
 - Segregate duties between pledge write-offs and donation collections

6. Multiple Check Deposit

- **Tips for institutions of higher learning to safeguard multiple check deposit fraud**
 - Bank reconciliations
 - Detailed review of check clearing activity
 - Utilize ACH or other electronic means for student refunds



7. Contract and Procurement Fraud

- **Ways to ensure strong internal controls surround your contract and procurement process**
 - Ensure that someone in your organization is involved in the procurement process besides the end user of the goods/services provided by the vendor including the receiving of goods
 - Consider having a contract administrator who can provide administrative oversight
 - Compare the labor hours and costs billed to the terms of all labor driven contracts/invoices.
 - Analyze percentage of change orders and compare across vendors
 - Periodically check for duplicate invoices
 - Require receiving documents prior to payment approval and verify proper goods were received
 - Ensure all vendor contracts include a “right to audit” clause and perform audits of vendor’s books, payroll, and expense records



8. Financial Aid Fraud

- **What can an institution of higher learning do to minimize the risk of Financial Aid Fraud?**
 - Establish conflict of interest policies
 - Organize and compile all financial aid policies (Make available online)
 - Provide conflict of interest training/ethics training
 - Compare student addresses to the addresses of financial aid office employees
 - Review file assignment report, manual change report and verification audit report
 - Ensure that financial aid disbursement checks are never sent to the financial aid office for students to pick up
 - Ensure the financial aid office never collects student repayments
 - Investigate situations where there are many students with similar off campus addresses especially for those out of state (on-line)



9. Timesheet Fraud

- **Tips to minimize the issue of inappropriate compensation and payments**
 - Training on proper allocation of time
 - Timely and accurate supervision approval
 - Training on timesheet approval
 - Appropriate assignment of supervision approval with knowledge of activities in the area
 - Prior approval for additional compensation beyond base salary/pay and proper documentation
 - Proper review of monthly compensation reports



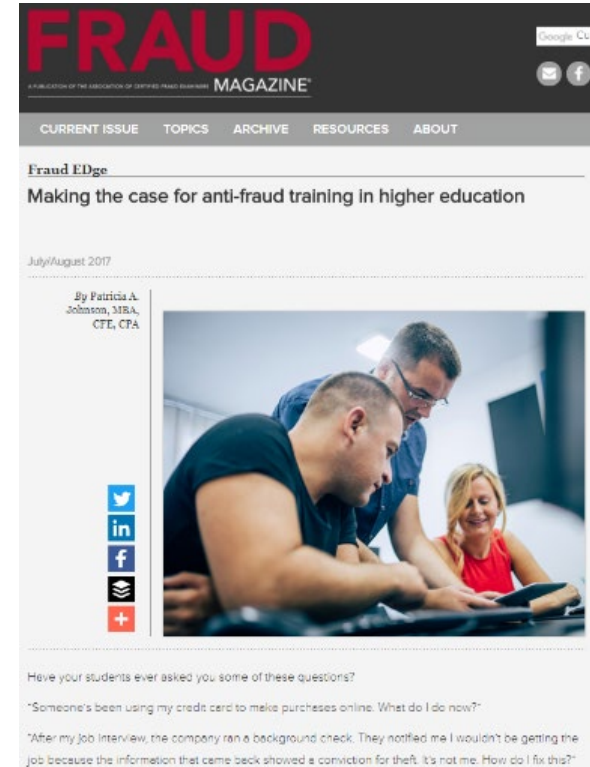
10. Off-Site Cash, Check, and Credit Card Fraud

- **Tips for institutions of higher learning to safeguard against off-site cash, check and credit card fraud**
 - Limit off-site locations
 - Require fundraising payments be processed centrally
 - Audit credit card activity (specifically refunds)
 - Require receipts be issued for all transactions through an auditable P.O.S system
 - ◇ Reconcile P.O.S. system activity to collections
 - ◇ Post a sign which clearly tells customers should expect a receipt



Fraud In Education- Conclusion

- Acknowledge that fraud risk exists
- Encourage open and candid discussion
- Continuously assess the risk of management and control override
- Openly display your skepticism to set the tone at the top and spread awareness
- Take swift action when a fraud event occurs and make the event of action (not the details) known internally
- If I were to try to commit fraud, how would I do it?
Understand the opportunities and then design the system to prevent it
- Develop Whistle Blower policies and establish an easily attainable fraud hotline

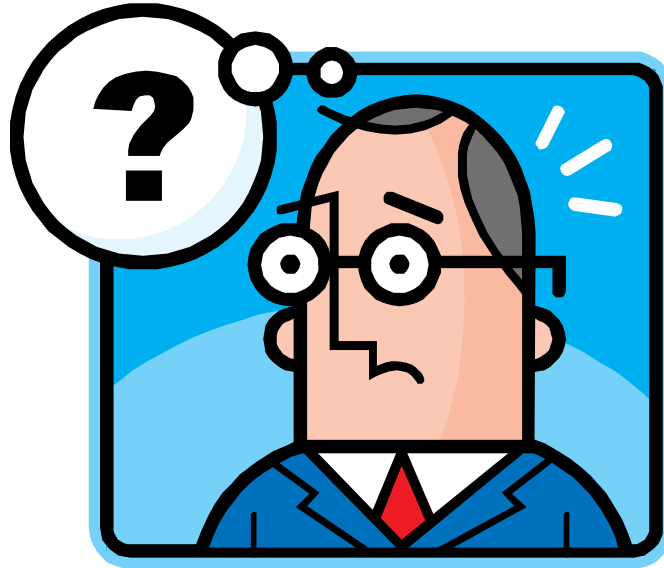


Fraud In Education- Conclusion (Continued)

- **HOW TO PREVENT FRAUD**
 - Employee Education
 - Employee Support Programs
 - Surprise Audits
 - Internal Controls
 - Background Checks
 - Fraud Training
 - Fraud Management Software
(Benford's law, BSA, New Account)



Questions





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