

Fraud Awareness



Extension Business Operations

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Topics

Fraud

- Definitions of fraud
- Types of occupational fraud
- Who commits fraud?
- Fraud statistics
- Issues in Extension
- Fraud triangle
- Prevention & detection

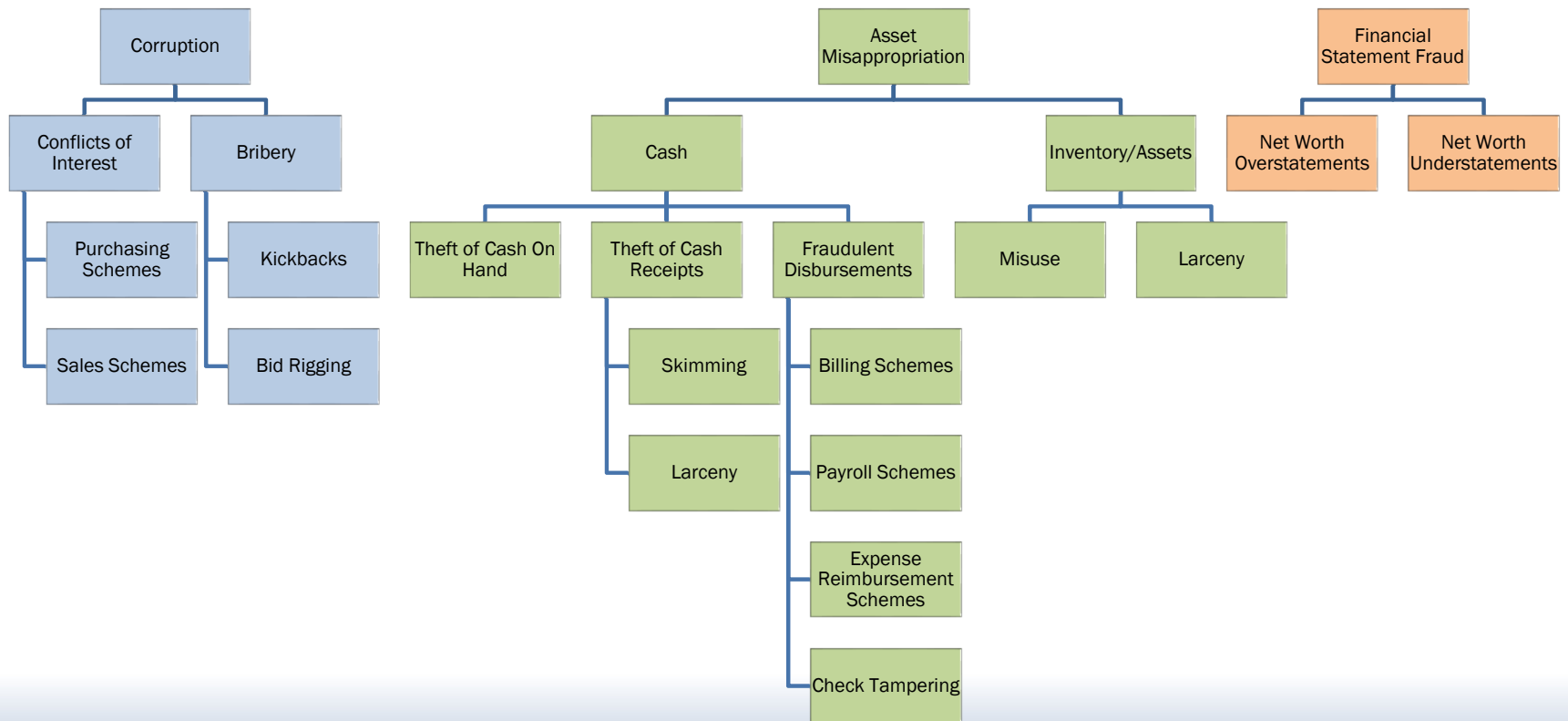
Internal Controls

- Internal Controls Defined
- Components of Internal Controls
- Types of Internal Controls
- UKCES Internal Controls (BPM E-1-4)

Definitions of Fraud

- An intentional act or omission designed to deceive others and resulting in the victim suffering a loss and/or the perpetrator achieving a gain. (ACFE)
- A wrongful or criminal deception intended to result in financial or personal gain.

Types of Occupational Fraud (ACFE)



Types of Occupational Fraud (ACFE)

- Asset Misappropriation
 - A scheme in which an employee steals or misuses the employing organization's resources.
 - Includes: theft of cash on hand, skimming, larceny, billing schemes, payroll schemes, expense reimbursement schemes, check tampering, and misuse.

Types of Occupational Fraud (ACFE)

- Corruption
 - A scheme in which an employee misuses his or her influence in a business transaction in a way that violates his or her duty to the employer in order to gain a direct or indirect benefit.
 - Includes: conflicts of interest, bribery and extortion.

Types of Occupational Fraud (ACFE)

- Financial Statement Fraud
 - A scheme in which an employee intentionally causes a misstatement or omission of material information in the organization's financial reports.
 - Includes: net worth overstatements and understatements.

Who Commits Fraud?

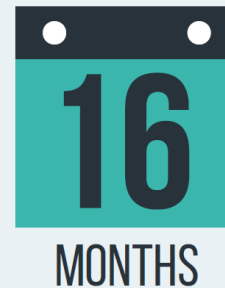
- <http://www.acfe.com/vid.aspx?id=4295004650>
- According to ACFE, majority of perpetrators were educated, tenured, trusted, middle-aged, male executives and managers.
- There is a positive correlation between the size of the loss and the perpetrator's authority level, tenure, education level, age and gender.
- Everyday ordinary people commit fraud given situational pressures.

Fraud Statistics (ACFE 2018 Report to the Nations)

TIPS are by far the most common initial detection method



Median duration of a fraud scheme



INTERNAL CONTROL WEAKNESSES WERE RESPONSIBLE FOR NEARLY **HALF OF FRAUDS**



SMALL BUSINESSES LOST ALMOST **TWICE AS MUCH PER SCHEME TO FRAUD**

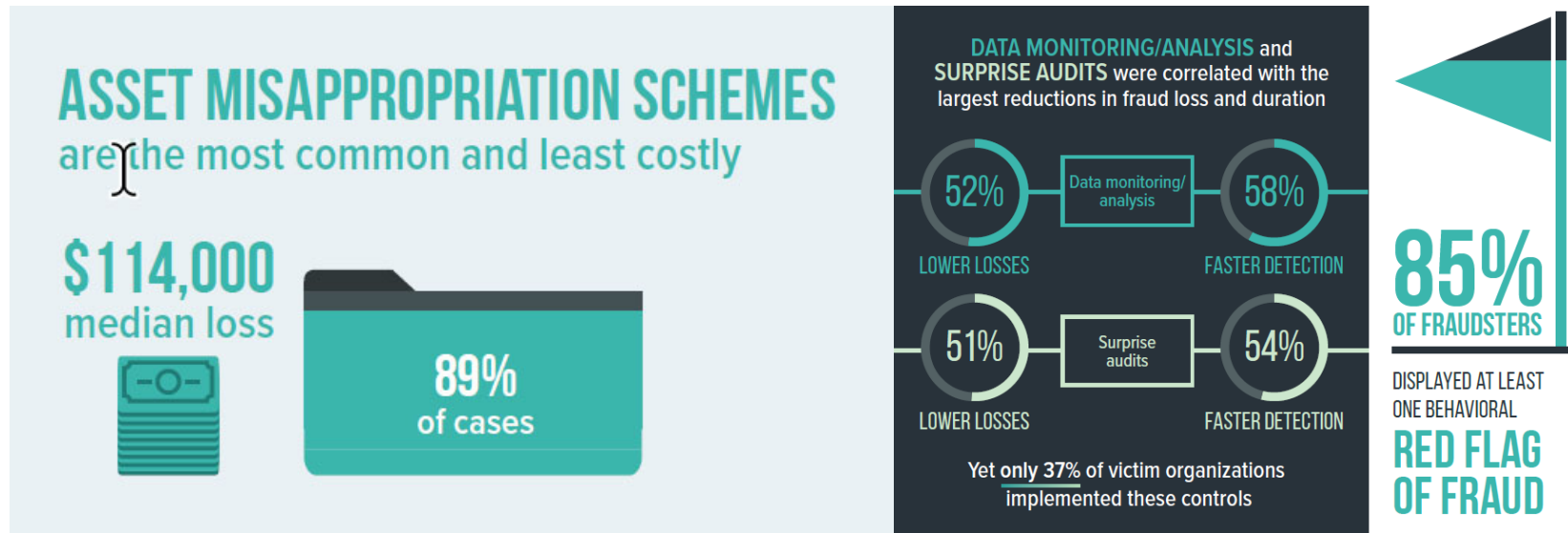
\$104,000
MEDIAN LOSS

100+ EMPLOYEES

\$200,000
MEDIAN LOSS

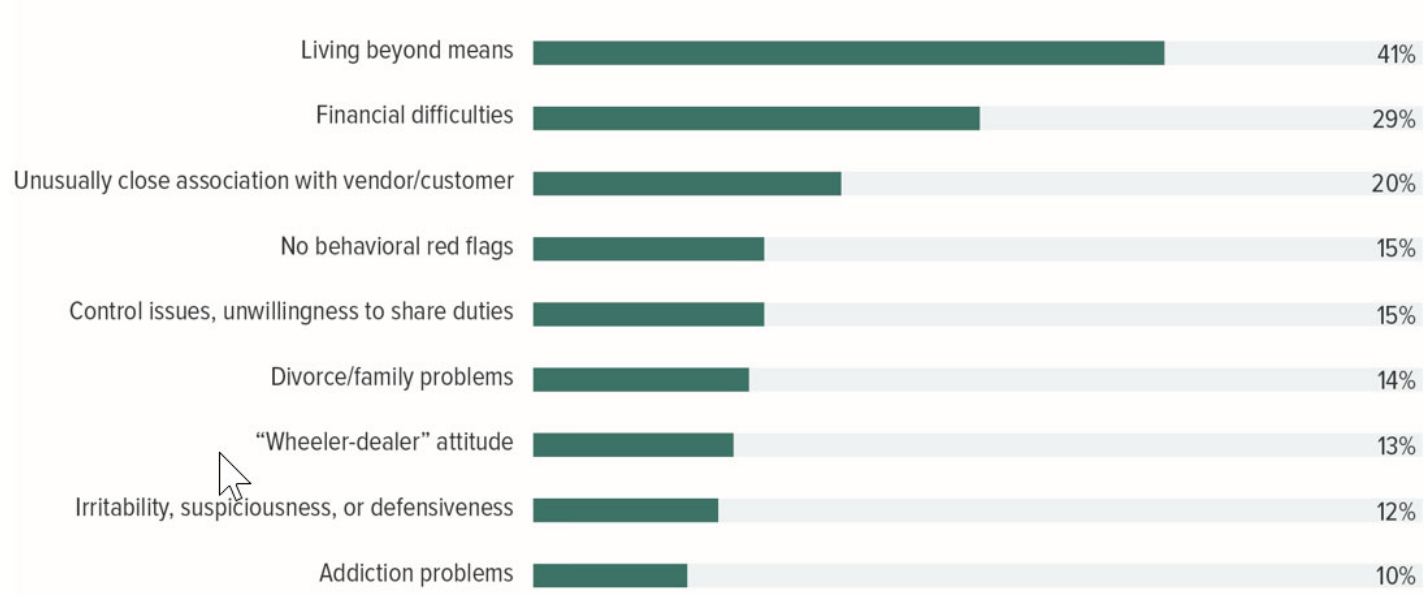
<100 EMPLOYEES

Fraud Statistics (ACFE 2018 Report to the Nations)



Fraud Statistics (ACFE 2018 Report to the Nations)

FIG. 38 How often do perpetrators exhibit behavioral red flags?



Issues in Extension

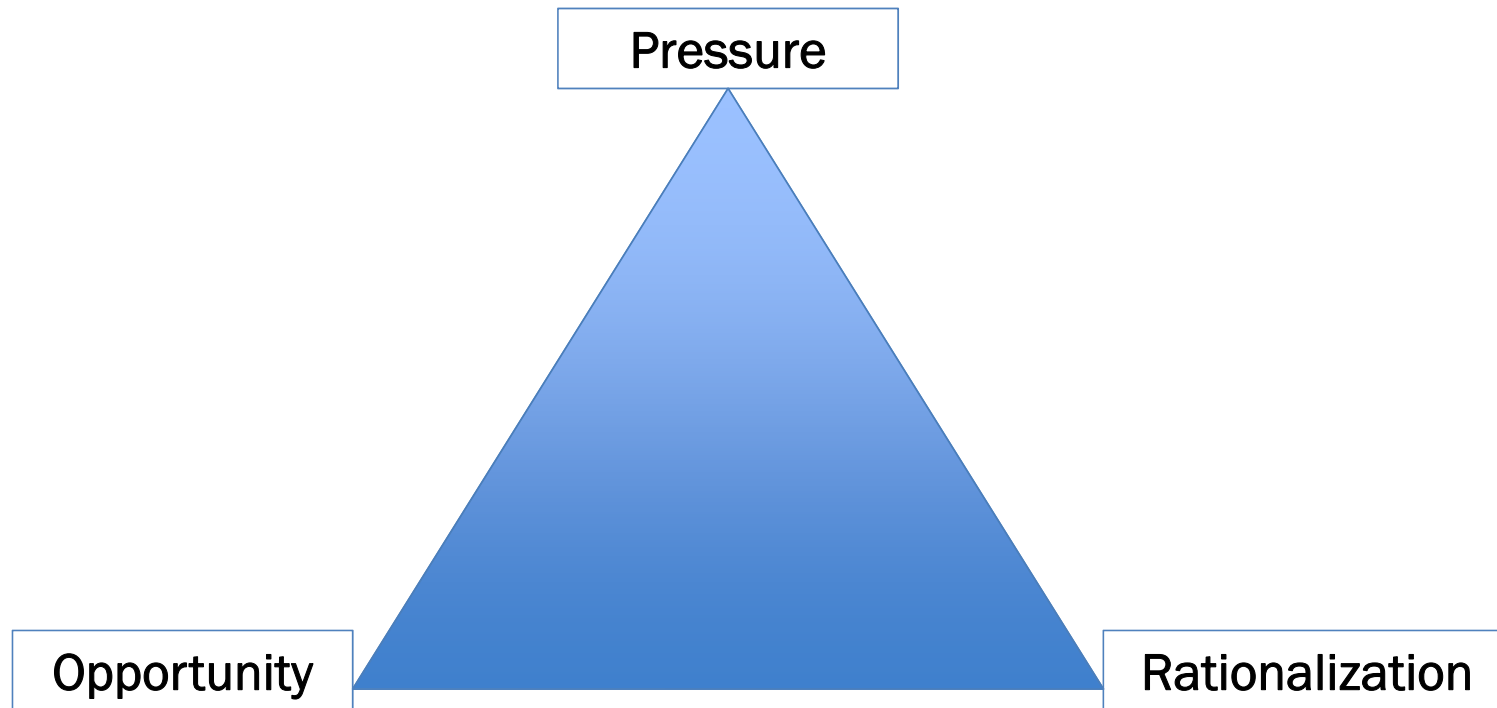
- Sample of Issues Found in County Offices
 - Duplicate reimbursements paid
 - Falsified receipts and invoices
 - Falsified mileage expenses paid
 - Falsified time recorded and paid
 - Employee attendance problems
 - Theft of county owned property
 - Improper use of county vehicles
 - Improper use of county credit cards



Issues in Extension

Finding	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Governance														
Conflicts of Interest	x		x		x	x	x		x				x	
*External Audits		x					x	x						x
Communication														
Communications						x	x		x					
*Training	x						x	x						
Human Resources														
*Time Reporting								x						
Vetting Volunteers	x		x	x		x	x	x	x	x	x		x	
Financial Operations														
*Travel	x	x		x		x			x	x		x		x
*Cash Handling	x	x	x		x	x	x	x			x	x	x	x
*Disbursements		x	x	x	x	x	x	x	x	x	x	x	x	x
*Authorizations	x	x	x	x		x			x	x	x		x	
*Asset Management			x				x				x	x		x
*Expense Classifications		x						x				x	x	x
*Reconciliations		x		x			x							

Fraud Triangle



Fraud Triangle

- Three factors that must be present at the same time for an ordinary person to successfully commit fraud:
 - **Pressure** – the person is motivated by outside pressures to commit the fraudulent act (debt, addiction, status, family issues, etc)
 - **Rationalization** – the person justifies the crime in a way that makes the act acceptable
 - **Opportunity** – the person sees some way that they can use (abuse) their position of trust with a low risk of getting caught
 - Opportunity is the only aspect of the fraud triangle that can be **controlled** by the organization

Fraud Triangle

- Case Studies:
 - UK Employee Fraud
 - Extension Employee Fraud
 - County Official Fraud
- Questions:
 - What type(s) of fraud were committed?
 - What pressures existed for the perpetrator?
 - What opportunities existed for the perpetrator?
 - How did the perpetrator rationalize the fraud?

Prevention & Detection

- 5 Basic Prevention Strategies (ACFE)
 1. Be Proactive – adopt a code of ethics, evaluate internal controls, identify vulnerabilities
 2. Establish Hiring Procedures – background checks & reference checks
 3. Provide Fraud Training – ensure staff know the warning signs and basic prevention methods
 4. Establish a Fraud Hotline – fraud is most commonly detected by a tip via anonymous reporting systems
 5. Increase Perception of Detection – communicate regularly about policies, reports of misconduct and potential consequences

Prevention & Detection

- Potential Red Flags:
 - Missing cash
 - One person does it all
 - Deposits are not made timely
 - Cash often out of balance
 - Missing equipment, supplies, etc.
 - Over-purchasing
 - Sketchy vendor information
 - High number of P-Card transactions
 - Blaming the system for pay errors
 - Excessive overtime hours
 - Unknown employee in pay records
 - Unknown vendor in financial system
 - Missing, altered, generic, or non-original receipts
 - Favorable treatment of a vendor
 - Gifts and favors
 - A person who insists on being the point of contact

Internal Controls Defined

- Processes adopted by an organization designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
 - efficiency and effectiveness of operations
 - reliability and integrity of financial reporting
 - compliance with applicable laws, regulations and policies
 - safeguarding of assets

Components of Internal Controls

1. Control Environment

- Tone at the top
- Integrity & ethical values
- Organizational structure
- Assignment of authority and responsibility
- HR policies and procedures

Components of Internal Controls

2. Risk Assessment

- Company-wide objectives
- Risk identification
- Managing change

3. Information and Communication

- Quality of information
- Effectiveness of communication

Components of Internal Controls

4. Control Activities

- Policies and procedures
- Security
- Reconciliations
- Segregation of duties
- Approvals
- Business continuity and backups
- Outsourcing

Components of Internal Controls

5. Monitoring Activities

- Ongoing monitoring
- Spot audits
- Independent audits
- Data analysis
- Reporting deficiencies

Types of Internal Controls

- **Preventive Controls**: designed to keep fraud and abuse from occurring in the first place.
 - Policies and procedures
 - Segregation of duties
 - System access limitations
- **Detective Controls**: designed to detect fraud and abuse that may have occurred.
 - Independent audits
 - Reconciliations
 - Monitoring

UKCES Internal Controls (BPM E-1-4)

- Compliance with all University and unit-level policies and procedures.
- Record all fiscal transactions in the appropriate accounting period as required by generally accepted accounting principles.
- Obtain proper approval before making a purchase based on procurement policies.
- All units must reconcile monthly bank statements to financial systems and related supporting documentation in a timely manner.
- Physically secure and periodically count equipment, vehicles, inventories, cash and other assets as per relevant policies.

UKCES Internal Controls (BPM E-1-4)

- Distribute the functions of authorizing and recording transactions, performing reconciliations, and the physical control of related assets among several people (where possible).
- In a small office where separation of duties is difficult, it is imperative that the supervisor review and approve all activity.
- Take investigative and corrective actions when needed.
- Perform periodic self-audits of unit transactions to identify accounting errors, omissions and/or irregularities and to ensure understanding of policies.

UKCES Internal Controls (BPM E-1-4)

- Report any of the following fraudulent, ethical, or compliance-related issues to one of the appropriate officials:
 - Violations or possible violations of applicable laws or regulations
 - Allegations of fraud or suspected fraud reported by employees, former employees, or others
 - Violations of Human Resources or payroll policies and procedures
 - Any ethical or compliance-related issues, including conflicts of interest
 - Any misuse of University assets or funds
 - Any significant deficiencies in the design or operation of internal control over financial reporting that are likely to adversely affect the unit's ability to record, process, summarize, and report financial data

UKCES Internal Controls (BPM E-1-4)

- Depending on the circumstances, report such activities to:
 - Employee's supervisor or department head
 - Extension Business Operations
 - Internal Audit
 - University or local police
 - Anonymous toll free line – 877-898-6072 or file a report online.
 - <http://www.uky.edu/internalaudit/form/notify-internal-audit>

Questions



The logo consists of the letters 'U' and 'K' in a stylized, blocky font with a double outline. The 'U' is positioned above the 'K'.

Cooperative Extension Service

Extension Business Operations
<http://cafebusinesscenter.ca.uky.edu>