Fraud 101
Objective: To heighten awareness of fraud and discuss how to prevent or quickly detect it, we will address the following issues:

- What is Fraud?
- How prevalent is fraud?
- Who commits it?
- How it is committed?
- How do we identify it?
- How do we prevent or mitigate it?
- How it could affect a department?
“Deceit, trickery, sharp practice, or breach of confidence, perpetrated for profit or to gain some unfair or dishonest advantage”

No industry is immune to fraud

Common Examples: identity theft, internet fraud, computer fraud, and of course financial fraud
- Corruption
  - Use of influence in business transactions in a way that violates his/her duty to the employer i.e. Bribery.

- Misappropriation
  - Perpetrator steals or misuses an organization’s resources i.e. theft.

- Financial Statements Fraud
  - Intentional misstatement /omission of material information on the organization’s financial reports.
Fraud facts in a study of 2,410 fraud cases:

- Asset misappropriation (stealing, theft) was by far the most common form of fraud (83% of cases).
- Average loss was $2.7 million, median loss was $150,000.
- The longer a fraud lasted the greater the financial damage.
- The most common detection method was tips (39%).
- Organizations with hotlines were much more likely to detect fraud.
- The presence of anti-fraud controls was correlated with both lower fraud losses and quicker detection.
- The most prominent organizational weakness that contributed to frauds was a lack of internal controls.
In 2016, 28.8% of all reported fraud cases occurred in the government and Not-for-Profit sectors with a median loss per case of $109,000.

Frauds lasted a median of 18 months before being detected.

More than 88% of fraudsters in this study had never been previously charged or convicted for a fraud-related offense.
A fraud perpetrator is likely to:

- Be educated beyond High School
- Have no prior arrest record
- Be between 31-50 years old
- Be a trusted employee
- Be considered a nice person
When these three things are present:

Opportunity

Incentive/Pressure

Rationalization

Fraud is often the result.
Primary Internal Control Weakness Observed by the Association of Certified Fraud Examiners

- Lack of Internal Controls: 29.3%
- Lack of Management Review: 19.4%
- Poor Tone at the Top: 10.4%
- Lack of Competent Personnel in Oversight Roles: 6.4%
- Lack of Independent Checks/Audits: 4.2%
- Other: 5.9%
- Lack of Employee Fraud Education: 2.0%
- Lack of Clear Lines of Authority: 1.6%
- Lack of Reporting Mechanism: 0.5%

How is fraud committed?
Frauds that have been Committed at UW

- Selling University equipment
- Overstating Travel Expenses
- Submitting P-card Expense for Reimbursement
- Using the P-Card to Make Personal Purchases
- Stealing cash from cash boxes or cash registers

Funds have been taken from UW
The following behavior can help us identify fraud.

An employee:
– is living beyond their means
– Has personal financial difficulties
– Is getting a divorce or has family problems
– Won’t take vacations
– Has a general wheeler-dealer attitude
– Is a close associate with a vendor or customer
These red flags might show up on supporting documentation:

– Documents with altered information.
– Invoices with missing vendor information.
– Invoices with even dollar amounts.
– Missing supporting documentation.
– Excessive number of items purchased.
– Delays in making deposits.
– Employees who do not provide receipts for all funds collected.
How Frauds are Detected

<table>
<thead>
<tr>
<th>Detection Method</th>
<th>&lt;100 Employees</th>
<th>100+ Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tip</td>
<td>43.5%</td>
<td>29.6%</td>
</tr>
<tr>
<td>Management Review</td>
<td>14.5%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>12.0%</td>
<td>18.6%</td>
</tr>
<tr>
<td>Account Reconciliation</td>
<td>8.3%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Other</td>
<td>7.7%</td>
<td>4.3%</td>
</tr>
<tr>
<td>By Accident</td>
<td>7.3%</td>
<td>4.8%</td>
</tr>
<tr>
<td>External Audit</td>
<td>6.4%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Document Examination</td>
<td>5.4%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Notified by Law Enforcement</td>
<td>3.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Surveillance/Monitoring</td>
<td>2.2%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Confession</td>
<td>1.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>IT Controls</td>
<td>1.3%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

How do we find fraud?
If it looks suspicious then you, or Internal Audit need to follow up on it.

Not everything that looks suspicious is a fraud, but every fraud looks suspicious.

Trust Your Instincts!!!
Prevention is Always Better Than Detection

- Set the tone at the top
- Provide a strong system of internal controls
- Document your policies and procedures AND FOLLOW THEM
- Management oversight – Trust, but VERIFY
- Utilize internal audit when you do become suspicious…remember….
Departments are effected in several ways:

- Funds lost through fraud are rarely recovered.
- Once fraud is noticed, it takes a lot of time to determine how much money was taken.
- Others may have to be involved i.e. the police, the auditors, and others.
- Procedures and controls will need to be reviewed and strengthened.

How will a fraud impact my department?
Quick action is important once the crime is identified.

Prosecution is important to deter future fraud.

Fraud losses are generally not recovered.

Fraud indirectly absorbs time and resources.

In a nutshell...
For additional information, please contact the Internal Audit Department
  • Kathleen Miller, CIA, Internal Audit Director
    kmille43@uwyo.edu
    Phone: 766-2385
  • Danika Salmans, Senior Auditor
    dsalmans@uwyo.edu
    Phone: 766-4835

Special acknowledgement to the American Certified Fraud Examiners Association, data used in this presentation was reported in the 2016 Report to the Nations on Occupational Fraud and Abuse.