

Fraud Prevention & Detection in the A&M System

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Today's Take-Aways

- Recognize the warning signs of fraud
- Know how to report fraud
- Know what to expect when you report suspected fraud
- Recognize that the auditor really IS your friend



Internal Audit's Responsibilities

- Develop an annual audit plan based on a system-wide risk assessment process
- Conduct audits in support of the plan
- Report results to the Board of Regents, the Chancellor, and the Chief Executive Officers
- Coordinate audit efforts with external and state auditors
- Investigate suspected fraud, waste and abuse



Occupational Fraud

The use of one's occupation for personal enrichment and/or gain through the deliberate misuse or misapplication of the employing organization's resources or assets.

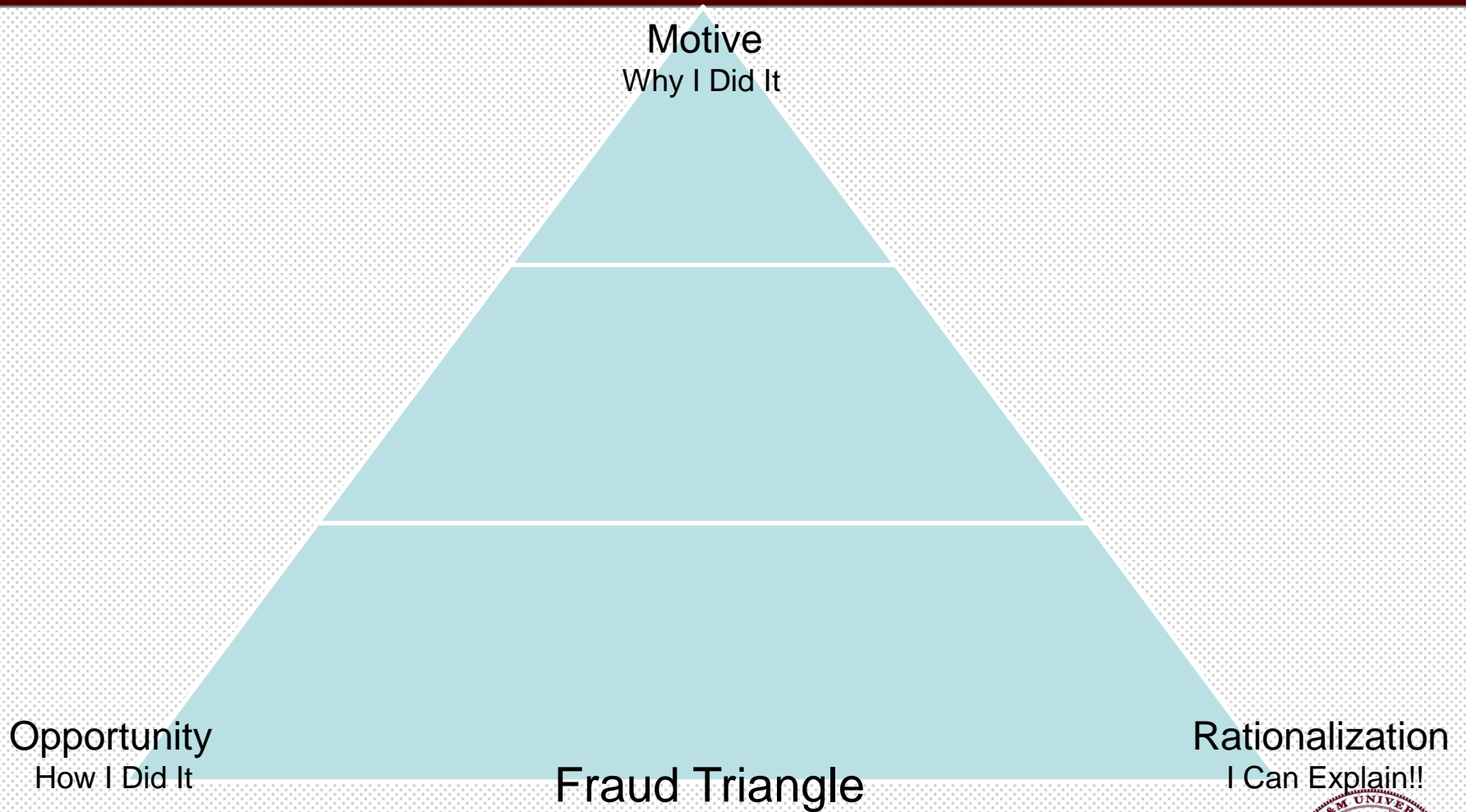


Examples

- Theft
- Embezzlement
- Kickbacks/Bribes
- Travel reimbursement schemes
- Falsification of government documents
- Misappropriation/misuse of property
- Misappropriation/misuse of confidential information
- Unauthorized use of IT system/network
- Conflict of interest



Why People Commit Fraud



Motive

(Perceived Financial Need)

- Need – Child’s college, new car, new house
- Problem – Unexpected medical bills, aging parents or grown children moving in
- Incentive – Increase “bottom line” or receive a bigger bonus/pay increase
- Pressure – Everyone does it



Opportunity

Every fraudster is typically given the opportunity to take advantage of the organization

- Lack of internal controls
- Poor internal control design
- Trust
- Loyalty



Rationalization

Most fraudsters consider themselves to be good, honest people, and can usually rationalize their behavior.

- Entitlement (underpaid/overworked)
- Just Borrowing (I'll pay it back later)
- Just this once
- Employer has plenty of money



Methods of Detecting Fraud

➤ Tips	42%
➤ Internal Controls	33%
➤ Internal Audit	14%
➤ Accident	7%
➤ Other*	6%

75% is YOU

* Law enforcement; external audits; spontaneous confessions

The 2014 Association of Certified Fraud Examiner's Report to the Nations



The Typical Fraudster

- Male - thefts are larger than thefts by females
- Aged 31 to 45 (54%)
- Works in a finance or finance-related function
- Mid-level or senior management position
- Generally employed by the organization for 1 to 5 years
- Median loss doubled when the fraudster was employed for 10 years or more
- Median loss doubled when the fraudster was in a management position



Red Flags

- No segregation of duties
- Inadequate or missing records
- Lack of or inadequate account reconciliations
- Management attitude (rules were meant to be broken – the ends justify the means)
- Financial pressures
- Complex accounting system
- Small number of employees with all of the knowledge
- No vacations or time off



A&M System Policy 10.02, Control of Fraud, Waste & Abuse

Employees are required to report factual information suggestive of fraudulent, wasteful or abusive activities that may involve the A&M System or any of its members.

Internal Audit is responsible for investigating allegations of fraud, waste and abuse.



How to Report Issues of Concern

- Immediate Supervisor or any supervisor in your chain of command
- A&M System Risk, Fraud & Misconduct Hotline
- A&M System Internal Audit Department
- State Auditor at www.sao.state.tx.us/siu

All reports can be made anonymously



What Happens Next?

- Notify CEO
- Conduct interviews
- Review documents
- Draw conclusions based on evidence
- Issue report to CEO
- Notify law enforcement and other agencies
(if warranted)



Risk, Fraud & Misconduct Hotline

- Anonymous reporting
- Report triage and routing
- Investigation
- Closure



High Risk Areas

Cash

Credit cards

- Travel
- Procurement
- Store

Travel reimbursements

Time

Purchasing

Conflicts of Interest



Fraud Prevention

➤ Ethical culture

Encourage open dialogue

Bad news is not only accepted, it is encouraged

Doing the little things right every day

Culture of trust - 1 in 5 employees report outside the organization due to mistrust

➤ Proactive

➤ Every employee's responsibility



Contact Information

Risk, Fraud & Misconduct Hotline:

- Telephone 888.501.3850
- Internet Link on every member's homepage

Investigative Audit Services Team:

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