

FRAUD AWARENESS GUIDE



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WHAT IS FRAUD

Fraud: Fraud is an intentional act to deceive or cheat, ordinarily for the purpose or result of causing a detriment to another and/or bringing about some benefit to oneself or others.

Some common fraud schemes which may occur at universities include the misuse of procurement cards (“p-cards”), listing fictitious vendors, rigging vendor bids, taking kickbacks, and abusing payroll and overtime by fraudulent reporting of hours worked. A few categories of fraud are listed below.

- ∞ **Any illegal acts** – i.e. violations of government laws and regulation
- ∞ **Theft / embezzlement**
- ∞ **False statements** (documents, grants, applications)
- ∞ **Corruption, kickbacks, conspiracies, collusion, bribes**
- ∞ **Misappropriation of money** (travel expenses, payroll, supplies, reimbursement of undue expenses and payment of charges)
- ∞ **Misuse of resources** : inventory, equipment, software
- ∞ **Influence:** Expecting/receiving gifts or consideration, conflict of interest



HOW FRAUD HURTS

- ∞ Fraud hurts almost everyone in the University community either directly or indirectly.
- ∞ Fraud is a common risk that should not be ignored and tolerated. Failure to do so will eventually result in damaging morale, jeopardizing the reputation of the University and raise questions about its fiduciary duties regarding funds provided by donors, government agencies, students, and parents.
- ∞ Fraud costs everyone through direct influence or indirectly through increased tuition, taxes and costs of products and services. A few potential impacts of fraud are highlighted below:
 - **Financial loss:** The actual dollar value of the cash or other items stolen is the easiest cost to quantify.
 - **Cost of investigation:** Every fraud should be investigated to determine the actual amount involved, the method or methods used, and who was involved. Such costs can range from five to six figures, depending on how complicated the fraud is.
 - **Reputation:** An organization that suffers a fraud will lose some of the public trust. At a minimum, people will assume the organization lacks proper management. At worst, people will decide the organization has no credibility whatsoever.



HOW FRAUD HURTS

CONTINUED

- **Damaged relationships:** Other organizations, stakeholders, grantors, and governments will all reassess their relationships with the organization.
- **Negative publicity:** Fraud publicity not only damages the organization immediately, but also leaves a kind of toxic residue. Those involved with the organization will continue to harbor doubts about the organization's credibility for years to come.
- **Loss of employees:** Depending on the nature of the fraud — especially if a senior staff member commits it — other employees may well begin looking for a better-run place of employment.
- **Loss of donors:** DSU Foundation and some other areas of the University receive donations from many organizations and individuals. An organization with a publicized fraud is less attractive to all but the most highly dedicated donors.
- **Litigation:** If University decides not to hide a substantial fraud, it is quite possible that a court case will ensue. The minimum cost of litigation will be in the tens of thousands and can, of course, run considerably more.
- **Damaged morale:** For employees who decide to stay with the organization, there will be a definite decline in morale. Employees may feel the organization has failed them and failed the mission.



HYPOTHETICAL EXAMPLES OF FRAUD

⌘ Athletics:

- Eligibility falsification
- Ticket sales falsification
- Travel records alteration

⌘ Payroll

- Creating fictitious employees
- Inflating hours worked

⌘ Purchasing

- Bid rigging
- Kickbacks
- Purchasing of inferior products
- Purchase of personal items

⌘ Academic Fraud

- Submitting others research/ material as your own
- Unauthorized altering a score, grade, or schedule on an academic record
- Falsifying correspondence or identification
- Signing the name of another person such as professor, advisor, dean, etc.
- Helping or attempting to help someone commit an act of academic dishonesty
- Making up statistics or facts without proper research



Accused of
Misconduct!



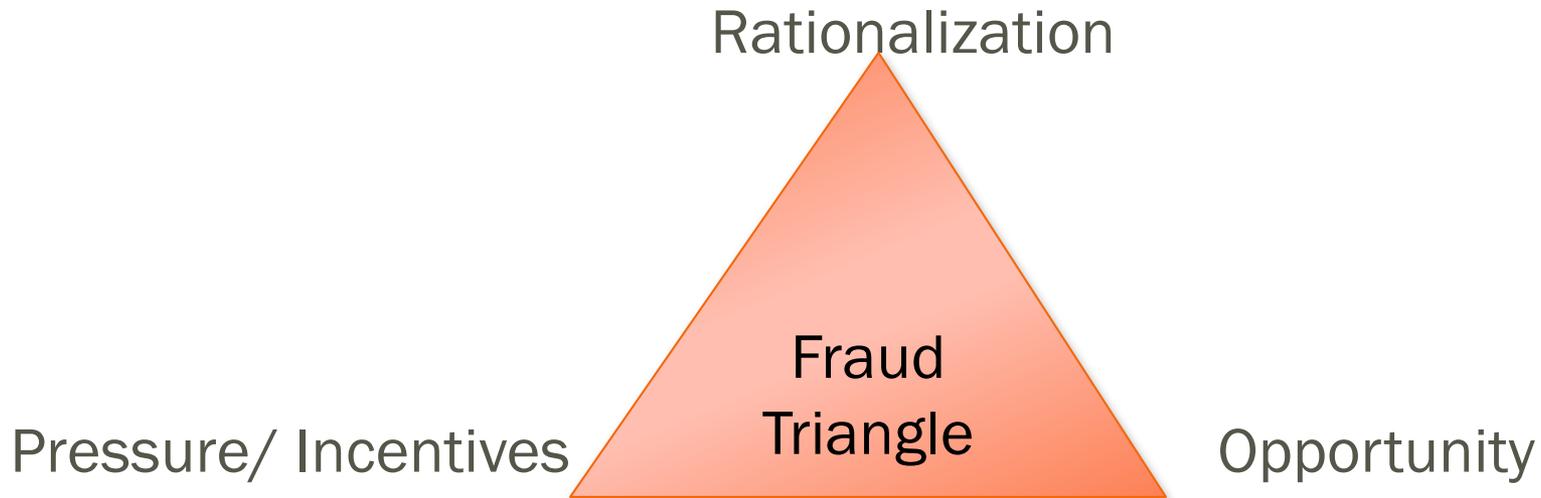
FACTORS OF FRAUD

Following are some common factors of fraud:

- Existing policies are not followed
- Independent reconciliations are not performed
- Documentation is not produced or kept
- One person does all elements of a task (lack of supervision)
- Employee relationships with a vendor are very close and long term
- Management or others can override procedures without documentation
- Computer usage and applications are loosely controlled



CONDITIONS OF FRAUD



- ☞ **Rationalization:** Anyone can rationalize they are just borrowing, believe they deserve what they take, plan to repay – never do. Will continue to commit fraud until caught.

CONDITIONS OF FRAUD CONTINUED

☞ Pressures/ Incentives:

- Family pressures
- Greedy desire for financial gains
- Non shareable financial pressures
- Pressure to meet certain goals
- Certain situation that is so overwhelming the person could not see any other way to get out of it



☞ Opportunity:

- Lack of internal controls
- Too much trust/ independence given to some employee
- Loose oversight to authorizations
- Close association with suppliers/ customers



RED FLAGS/ FRAUD INDICATORS

Red flags are indications that a fraud might be occurring. A red flag doesn't prove the existence of fraud, all it does is call attention to a condition that should be investigated more thoroughly. One of the purposes of fraud awareness training is to train you to recognize red flags that may appear and what to do when you detect red flags.

∞ Lifestyle:

- Living beyond means
- Gambling
- Possible alcohol or drug problems

∞ Attitude:

- Job dissatisfaction
- Feeling underpaid
- Feeling unappreciated
- Pride in beating the system
- Greed



RED FLAGS/ FRAUD INDICATORS

CONTINUED

∞ Economic stress:

- Family illness
- Divorce
- Severe personal financial losses
- Family unemployed
- High debt
- Family/ friends pressure to succeed



∞ Work Habits:

- Excessive overtime
- No vacations
- Either avoids or is too friendly with coworkers



HOW TO REDUCE FRAUD

☞ Set tone at the top

- Management's commitment to implement internal controls and how well they follow their own internal controls sends a strong signal to all employees about the importance of internal controls, fraud prevention and financial statement accuracy. Management should set appropriate ethical examples for employees to follow and treat workers fairly and with respect.

☞ Policies and procedures

- Management should strongly consider setting up written policies and procedures that should be followed. In addition clear policies for integrity and ethics should also be established and be made well known throughout the University.

☞ Training

- Through employee orientation, training, and other communications make every employee aware of what activities constitute fraud, what the consequences are and what steps the University takes to detect fraud. Also employees should know what to do if they suspect fraud.

HOW TO REDUCE FRAUD

CONTINUED

- ∞ Use fraud reporting hotline
 - Use DSU fraud, waste, abuse, and ethics issues fraud reporting hotline at <http://www.desu.edu/audit> that is easily accessible and trusted. Fraud reporting hotline provides employees and others with a safe and secure means of reporting incidents. **Note: For all emergencies and thefts, immediately call at 911.**
- ∞ Implement strong antifraud controls
 - Such as establishing fraud reporting hotline, protection of whistleblowers from retaliation, fraud training, job rotation/mandatory vacation, management review, surprise audit, code of conduct, independence of audit department, etc.
- ∞ Enforcement as a warning
 - Openness is the only way to get across the message that fraud is not tolerated. If law and all circumstances permit, do not keep the problem quiet and allow the fraudster to quietly resign. Make it public so that others are warned.
- ∞ Pay attention to small transgressions
 - Fraud generally starts from small and can grow overtime. Addressing the smallest transgression will be very helpful in preventing future scandals.
- ∞ Prevention first/ Be Proactive
 - If fraud is committed and University money is spent, it will be hard to fully recoup the losses. It is far better to be proactive rather than reactive

HOW TO REDUCE FRAUD CONTINUED

Each division head, dean, chair, director, manager, and other stakeholder should know the answers to following questions and appropriate corrective actions:

- ∞ Are all personnel who deal with University resources bonded?
- ∞ Do our employees know what is expected of them ethically?
- ∞ What procedures do we use when checking potential new hires?
- ∞ Who is looking for unusual fluctuations in our financial records?
- ∞ Do we keep an eye out for unusual employee behavior and other red flags?
- ∞ Are our divisions/ departments internal controls in place and when have we done self-assessment risk analysis?
- ∞ Do we have clear written policies and procedures for each staff position?

WHAT TO DO, IF FRAUD IS SUSPECTED

- ☞ Everyone at DSU should know what to do if you suspect a fraud.
- ☞ Refer to DSU whistleblower policy available at: www.desu.edu/audit that protects you from the fear of being a whistleblower.
- ☞ Do not confront with the suspect and if possible report fraud incident to suspect's supervisor or the supervisor's superior.
- ☞ Otherwise, Visit us at www.desu.edu/audit, report us by using DSU fraud reporting hotline. In doing so, you should
 - Feel that corrective action will be taken,
 - Understand that reports of misconduct will be confidential,
 - Understand that reports of misconduct will never result in retaliation by superiors, coworkers, and managers.
 - If you still see any retaliation, immediately report to us.
- ☞ [Video showing benefits of Whistleblowing](#)

REPORT: FRAUD, WASTE, ABUSE AND ETHICS ISSUES

Note: For all emergencies and thefts, immediately call at 911 as following reporting services are to investigate fraud, waste, abuse and ethics issues.

☞ **Online:** www.desu.edu/reportfraud

☞ **Email:** reportfraud@desu.edu



☞ **Mail:** Internal Audit and Advisory Services, Room 303, Administration Building, 1200 N. DuPont Highway, Dover, DE 19901

☞ **Call:** 1-302-857-7182 (For emergencies and thefts call 911)

CONCLUSION

- ☞ Tone should be set from top to bottom regarding commitment towards openness, honesty, integrity, and ethical behavior. This will have a trickle-down effect on all levels of management and employees of the University.
- ☞ Faculty, staff, students and others should understand that any of their coworkers may be capable of committing fraud.
- ☞ Risk of fraud can substantially be reduced if all faculty, staff, students and others know what fraud is, how it hurts, what to look for, and how to report.

