

LUNCH and
LEARN





Questions

- Use Panel Options “Q&A”

Learning Objectives

- Define what fraud is
- Explain why fraud happens
- Provide information on how to reduce fraud risk
- Provide information on how to report possible fraud

You Are HCC's MOST IMPORTANT Control!



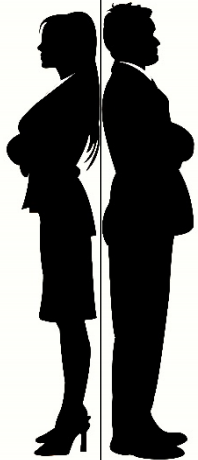
Fraud defined...

"Any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain." *

*Source: The Institute of Internal Auditors (IIA), The American Institute of Certified Public Accountants (AICPA), & Association of Certified Fraud Examiners (ACFE), *Managing the Business Risk of Fraud: A Practical Guide* (pp. 5).

What does a "TYPICAL" Fraudster look like?

Female Male



28% 72%



Level of Authority

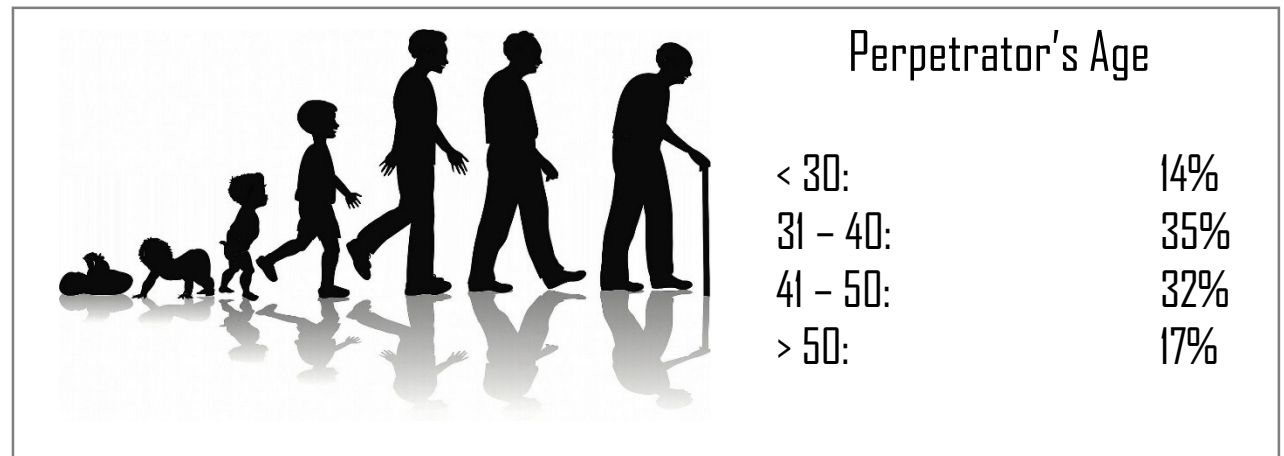
Owner/Executive	20%
Manager	35%
Employees	41%
Others	3%



> 1 year	9%
1-5 years:	46%
6-10 years:	22%
> 10 years:	23%



High school graduate or less:	22%
Some University:	14%
University Degree:	49%
Postgraduate Degree:	15%



Most Common Categories of Fraud

(Occupational-committed by employees against employers)

Asset Misappropriation

- Involves the actual theft of an entity's **assets**
- Most common
- 86% of cases
- \$100,000 median loss

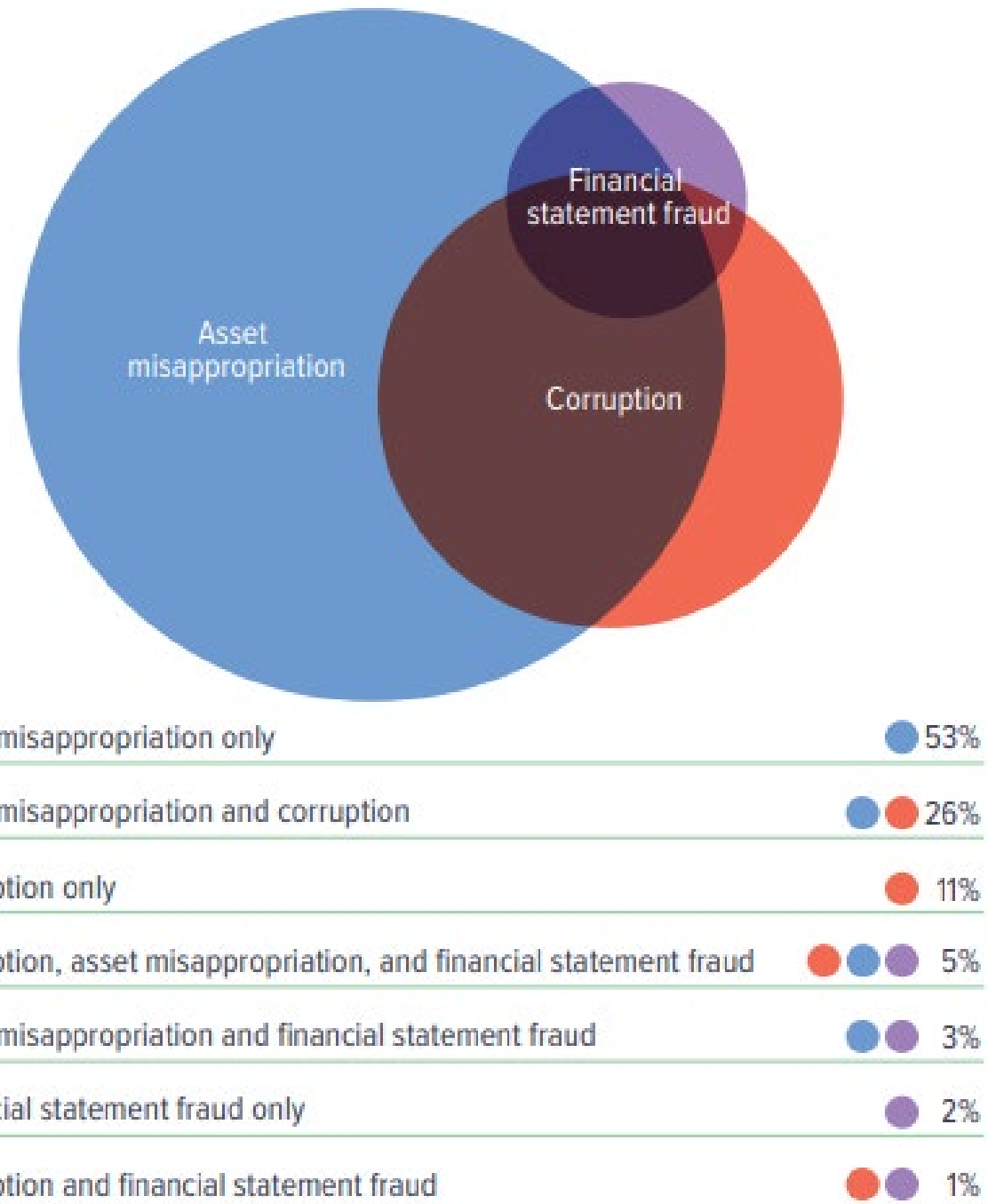
Corruption

- Dishonest or fraudulent conduct by those in power, typically involving bribery
- Next most common
- 43% of cases
- \$200,000 median loss

Financial Statement Fraud

- The deliberate misrepresentation of the **financial** condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the **financial statements**
- Least common
- Most costly
- \$954,000 median loss

How Often Do Fraudsters Commit More than One Type of Crime?



Common Types of Fraud in Higher Education

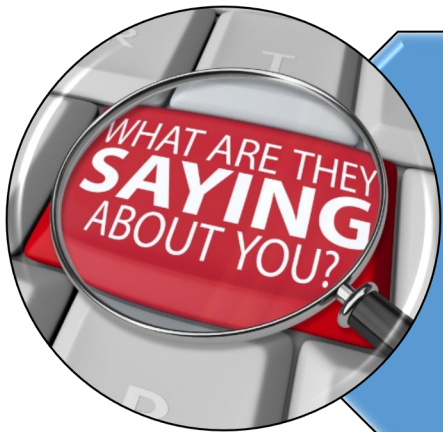
- **Theft/misappropriation of college assets**
- **Fake vendor payments**
- **Fraudulent employee expense reports**
- **P-card abuse**
- **Financial aid kickbacks**
- **Theft of donations**

<<Fraud can cost our students, donors, and key stakeholders>>

How Fraud Can Affect HCC...



Financial loss is generally the main effect of FRAUD in Higher Education, but...



Reputational Damage is another significant risk of Fraud in Higher Education. The Institution receiving...

- negative publicity (i.e. news broadcasts, newspapers, rating agencies, etc.)
- Potential drop in future enrollment
- Potential drop in future advancement/development contributions

Why good people do bad things?

"Integrity is doing the right thing, even when no one is watching." -C. S. Lewis



In large organizations, employees can begin to feel more like numbers or cogs in a machine than individuals.



The use of nicknames and euphemisms for questionable practices can free them of their moral connotations, making them seem more acceptable. (*"greasing the wheel", "financial engineering"*)



Sometimes people, having been moral and forthright in their dealings for a long time, feel as if they have banked up some kind of "ethical credit".

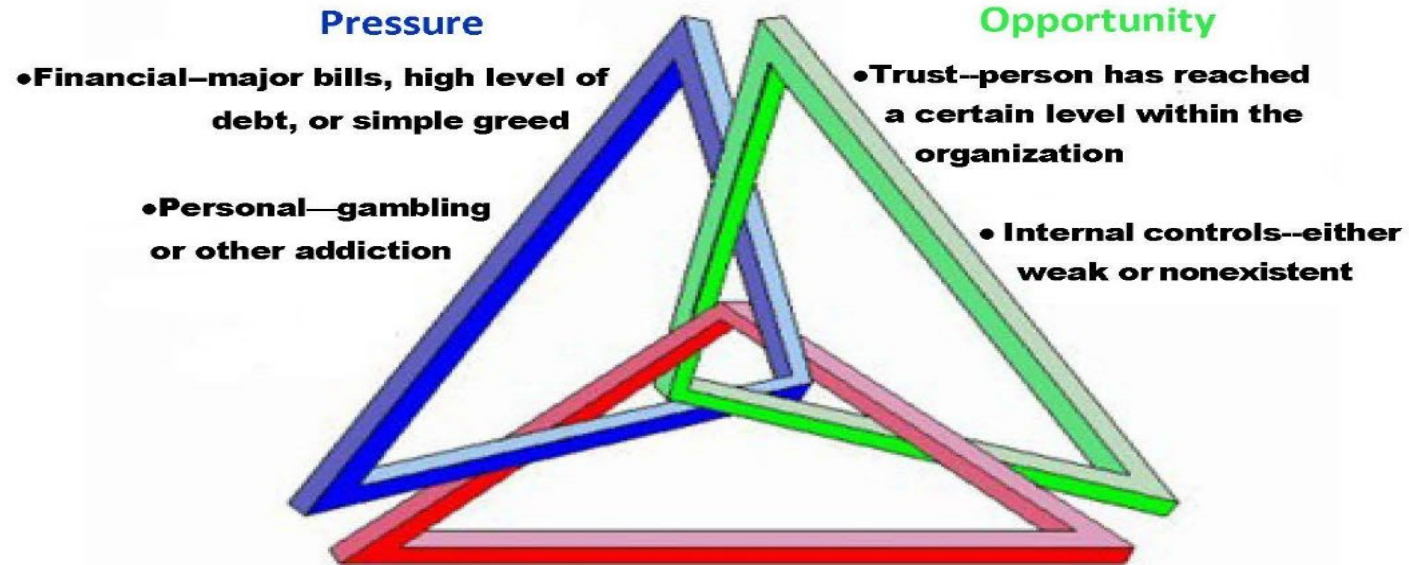


Small thefts are ignored. Then slightly larger ones like over claiming expenses or accepting unauthorized business gifts.
(*stationery, sugar packets, paper cups, toilet paper*)



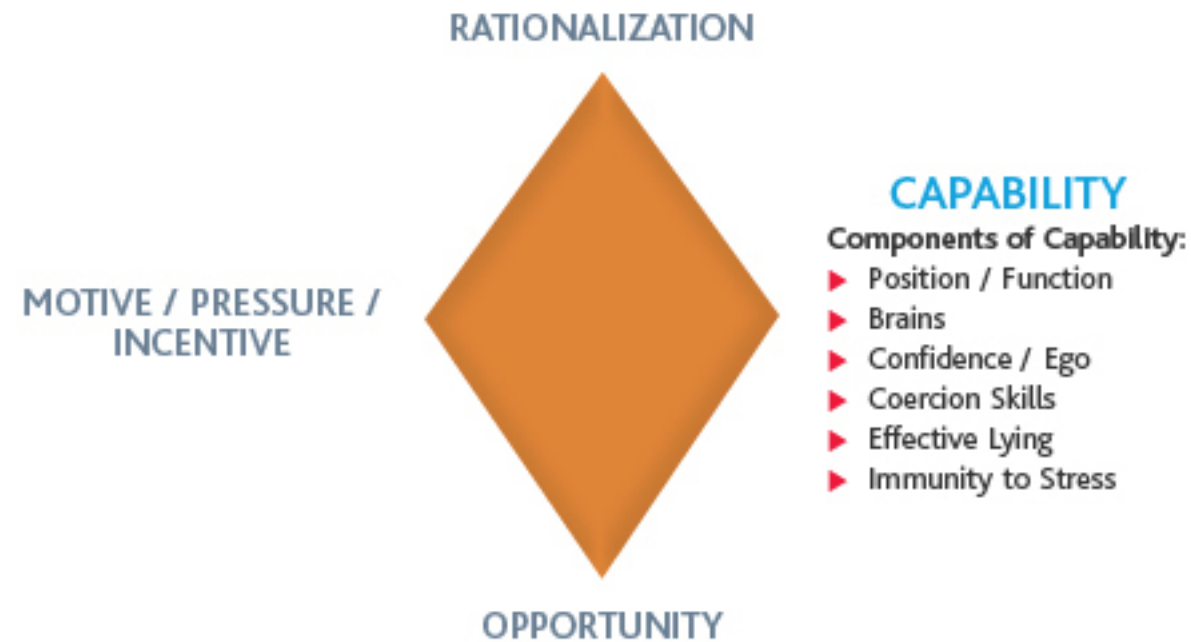
The Fraud Triangle

When all three components are present – there is a red flag for possible fraud



- **Justification** – “I’m only borrowing the money. I’ll give it back when financial situation improves.”
- **Lack of ethics**—“Management isn’t honest, so why should I be?”
- **Work-related**—feeling overworked and underpaid; passed over for a promotion

The Fraud Diamond: Considering the Four Elements of Fraud



Excerpted from the BDO Ac'sense 2010 self-study course – *Focus on Fraud: The Series Continues...*
accessible at: <http://www.bdo.com/acsense/events/Focus%20on%20Fraud%20-%20Lessons%20Learned.aspx>.



BEHAVIORAL RED FLAGS OF FRAUD



Recognizing the behavioral clues displayed by fraudsters can help organizations more effectively detect fraud and minimize their losses.

7 KEY WARNING SIGNS

- Living beyond means
- Financial difficulties
- Unusually close association with vendor/customer
- Control issues, unwillingness to share duties
- Irritability, suspiciousness, or defensiveness
- “Wheeler-dealer” attitude
- Divorce/family problems



Classifying Red Flag Behaviors



In 52% of cases, the fraudster exhibited red flags connected to their work duties.

HERE'S
YOUR RED
FLAG

85% of all Fraudsters displayed at least one red flag while committing their crime.



A fraudster living beyond their means is the most common. It has been the #1 RED FLAG in studies since 2008.

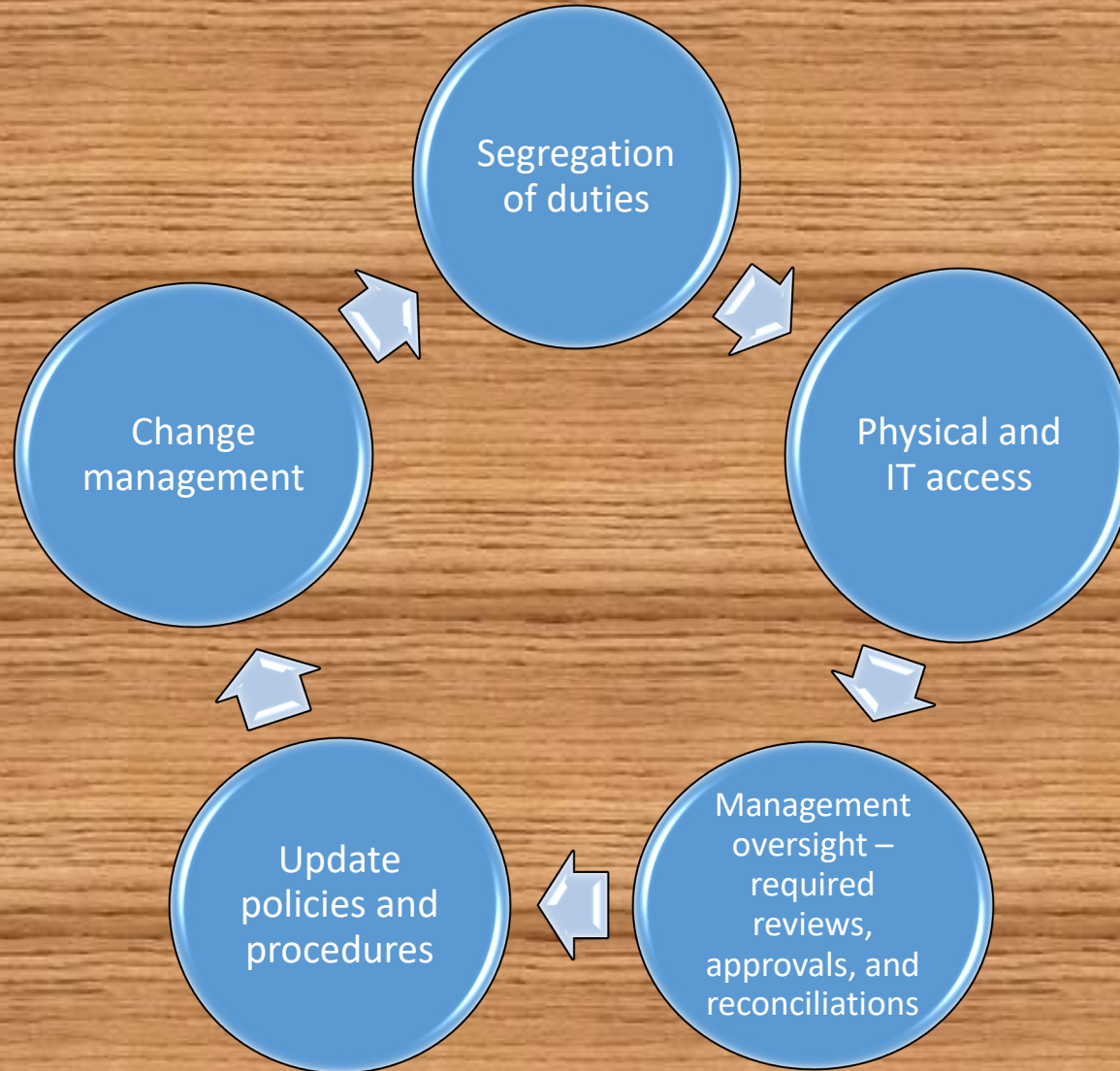
Primary internal control weaknesses that contribute to occupational fraud.



Easy Ways to Reduce Fraud Risk

1. Management Controls
2. Fraud Risk Assessments

Key Management Controls



Fraud Risk Assessments

Process to identify where fraud may occur and who may be committing it



Ask how would I
commit the
fraud?



Document the
controls in place
to prevent this
fraud from
happening.



Determine
whether the
control
environment is
adequate to
prevent the fraud.



Add practical
procedures to
bring the control
environment to
an acceptable
level if needed.

Active Fraud Risk Brainstorming



How could someone exploit weaknesses in our controls and daily behaviors?

How could someone override or circumvent our controls?

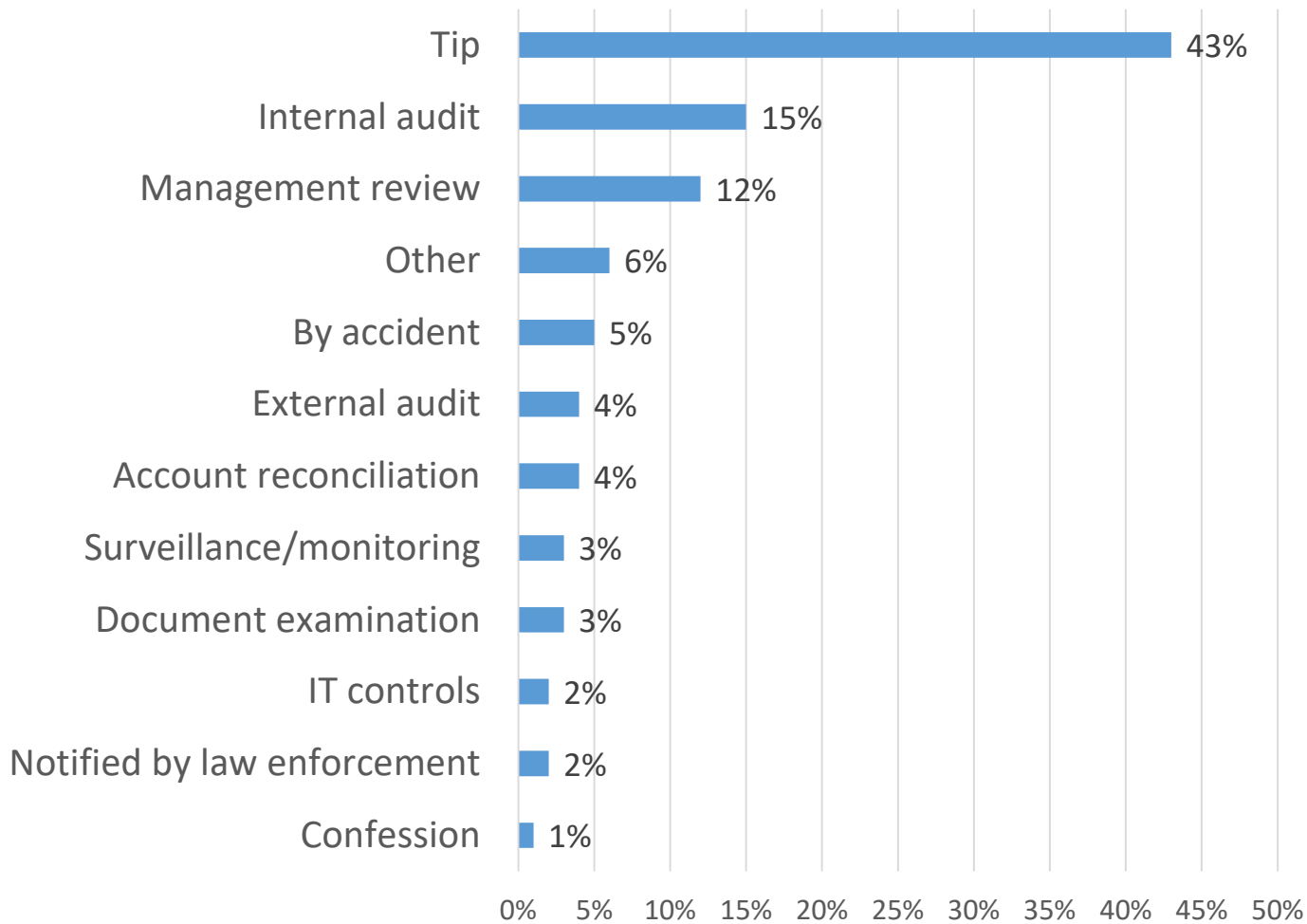
How could someone conceal their wrongful actions?

Begin with the PRESUMPTION that a **fraud event has already occurred.**

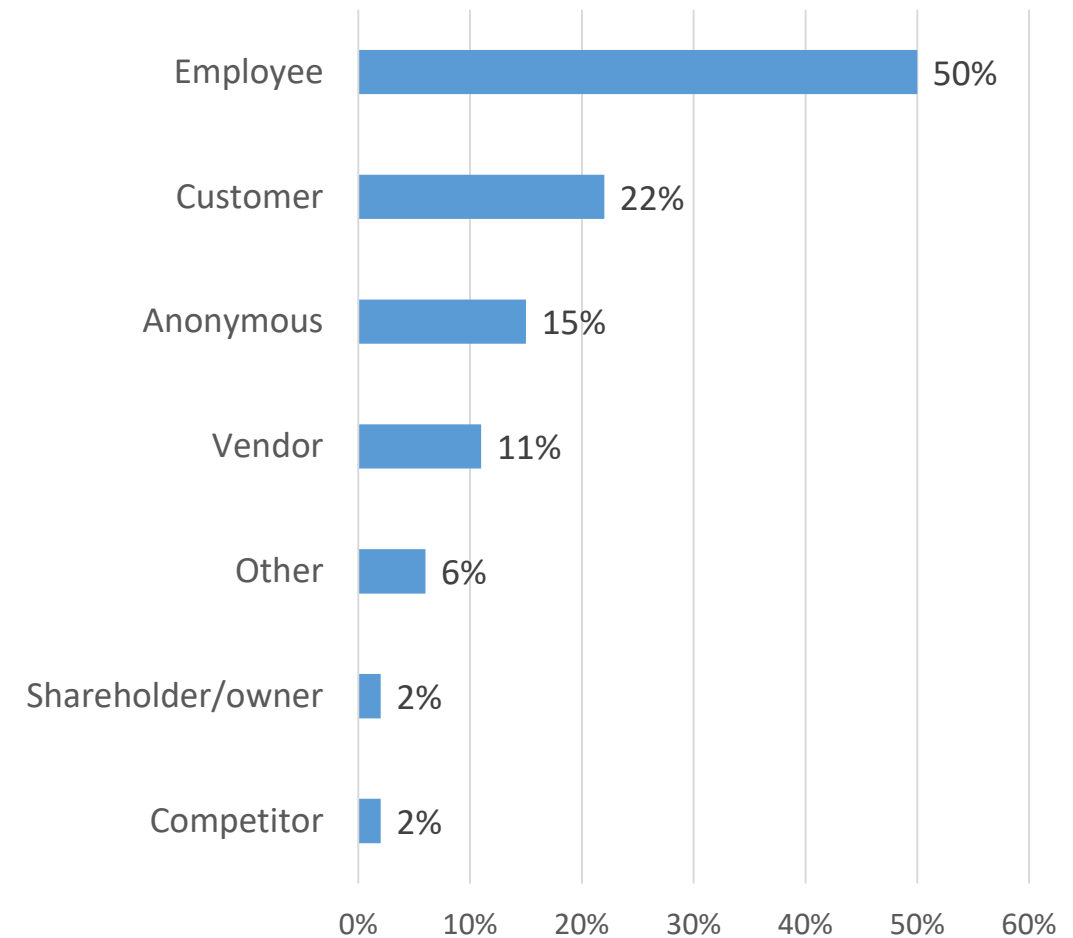
Assume you are committing the fraud.

Sources of Fraud Detection...

How are Reports Made?



Who Reports?





**See something.
Say something.**

HCC is pleased to provide a third-party Ethics and Compliance Hotline for employees, students, and members of the public to encourage the reporting of any fraud, waste, and abuse and violations of College District policy and law.

<http://www.hccs.ethicspoint.com/>

1.855.811.6284

Prevention and Deterrence



Visible and vocal
leadership



Active ongoing
fraud risk
assessments



Policies on Fraud
Responsibilities



HCC Policies on Fraud Responsibilities

- Policies

BBFB (LEGAL)

CAK (LEGAL)

CDC (LOCAL)

CDE (LOCAL)

DGBA (LOCAL)

DH (LOCAL)

FEA (LOCAL)

FLB (LOCAL)

FLD (LOCAL)



- Employee Standards of Conduct annual training is mandatory for all HCC employees

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- <https://www.hccs.edu/departments/internal-auditing/>

Questions/Comments (*use Panel Options "Q&A"*)

