Fraud....It Happens....

Here?

Presented by Robin Woods
Manager, Investigative Audit Services
Texas A&M University System Internal Audit
Today’s Topics

- Who We Are
- Fraud In a Nutshell
  - Definitions
  - Statistics
  - Why it Happens
  - How to (Try to) Prevent It
- Fraud in the A&M System
The Texas A&M University System

ORGANIZATIONAL CHART

Board of Regents

Executive Director

Chancellor

System Ethics and Compliance Officer

General Counsel

Executive Vice Chancellor & Chief Financial Officer

Internal Audit

Executive Vice Chancellor Engineering

Vice Chancellor Engineering

Texas A&M Engineering Experiment Station

Texas A&M Engineering Extension Service

Texas A&M Transportation Institute

Texas A&M Forest Service

Vice Chancellor Agriculture

Executive Vice Chancellor Global Partnerships

Vice Chancellor Global Partnerships

Texas A&M International University

Texas A&M University-Commerce

Texas A&M University-Kingsville

Texas A&M University-Texarkana

Texas A&M University-Commerce

Texas A&M University-Kingsville

Texas A&M University-Texarkana

Texas A&M University-Commerce

Chief Information Officer A&M System

Chief Business Development Officer A&M System

President A&M System

March 4, 2014
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
Fraud

A willful or deliberate act or failure to act with the intention of obtaining an unauthorized benefit such as money or property, by deception or other unethical means.

Occupational Fraud

The use of one’s occupation for personal enrichment 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 manipulation of IT system/network
- Conflict of interest
U.S. organizations are believed to lose approximately 5% of their annual revenues to occupational fraud*

This is approximately $6,400 per A&M System employee

* The Association of Certified Fraud Examiner’s 2012 Report to the Nations
Why People Commit Fraud

- Motive: Why I Did It
- Opportunity: How I Did It
- Rationalization: I Can Explain!!

Fraud Triangle
Motive

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

- Lack of internal controls
- Poor internal control design
- Trust
- Loyalty
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
- Disagree with the rules
Methods of Detecting Fraud

- Tips 47%
- Internal Controls 33%
- Internal Audit 16%
- Accident 4%

The 2012 Association of Certified Fraud Examiner’s Report to the Nations
Red Flags

- No segregation of duties
- Inadequate/missing records
- Lack of account reconciliations
- Management attitude
- Financial pressures
- Complex accounting system
- Small number of employees with all of the knowledge
- Breaks or bends the rules (ends justify the means)
- No vacations or time off
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 suspected Fraud

- 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](http://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
- Notify law enforcement and other agencies (if warranted)
Prevention versus Detection

Detection
- Reactive
- Responsibility delegated to Internal Audit
- Costly and Time Consuming

Prevention
- Proactive
- Every employee’s responsibility
- Cost effective
General Preventative Steps

Do the little things right every day

- Follow the rules and expect others to do the same
- Do what you are paid to do

Be aware of your “surroundings”

- Is this how things are supposed to work?
- What are others in the process supposed to be doing and are they?

Ask questions

- Ask if you DO know and ask if you DON’T know
- Get a second opinion
Always Remember...

We have procedures, rules, policies, etc. to keep the honest people honest
Risk, Fraud & Misconduct Hotline:

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

Investigative Audit Services:

- Robin Woods  robin-woods@tamus.edu
- Debi Fincher  dfincher@tamus.edu
- Lauro Garza  lgarza@tamus.edu
- Joseph Mitchell  joseph.mitchell@tamus.edu