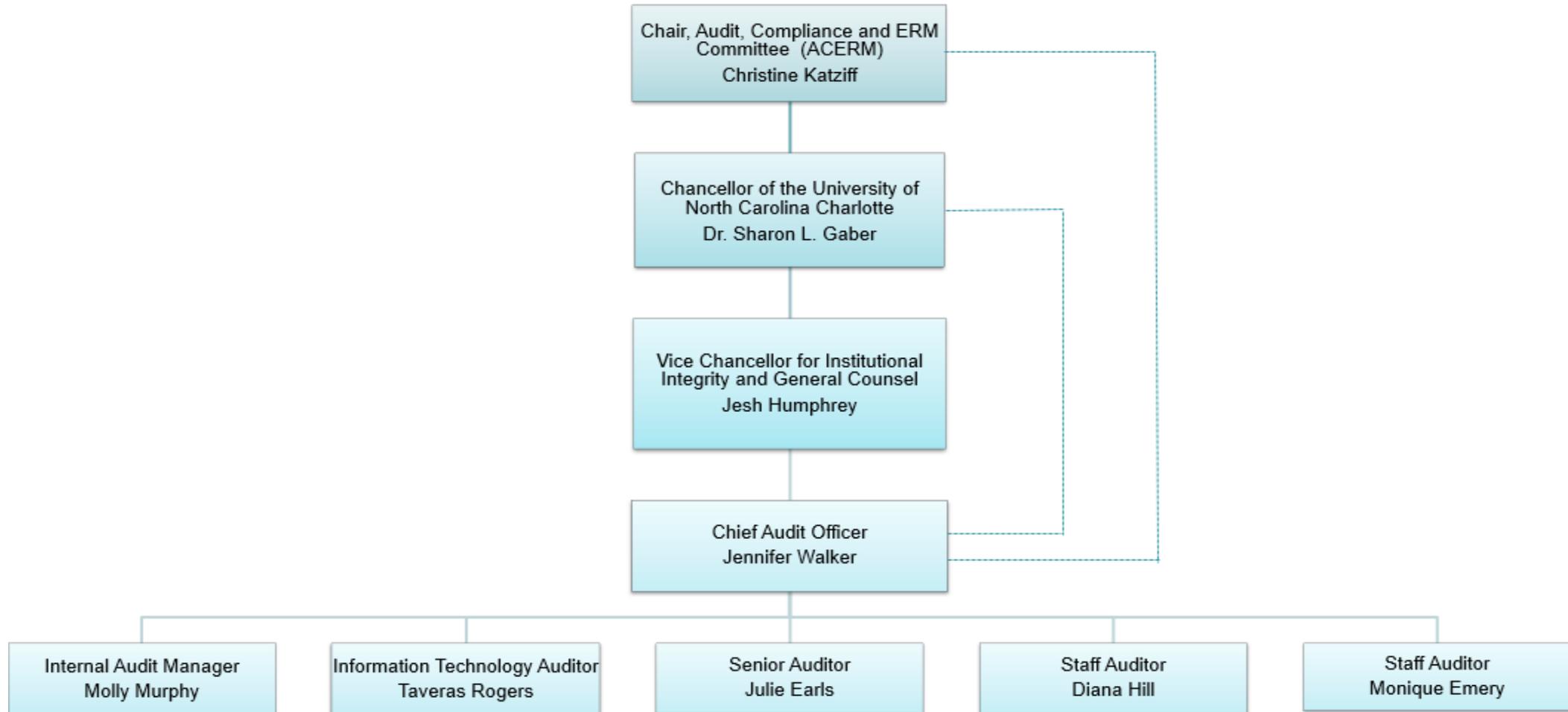


Fraud and Controls: Preparing for the Post Pandemic Future

Molly Murphy
Internal Audit Manager

Internal Audit's Organizational Structure



About Us

Mission: To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Vision:

- ❖ To be a respected campus partner whose advice is sought and whose integrity is beyond reproach,
- ❖ with a highly skilled and professionally credentialed staff
- ❖ to provide unbiased evaluations with actionable recommendations,
- ❖ continuously seek to improve internal operations and service delivery through quantitative and qualitative evaluations and measurements.

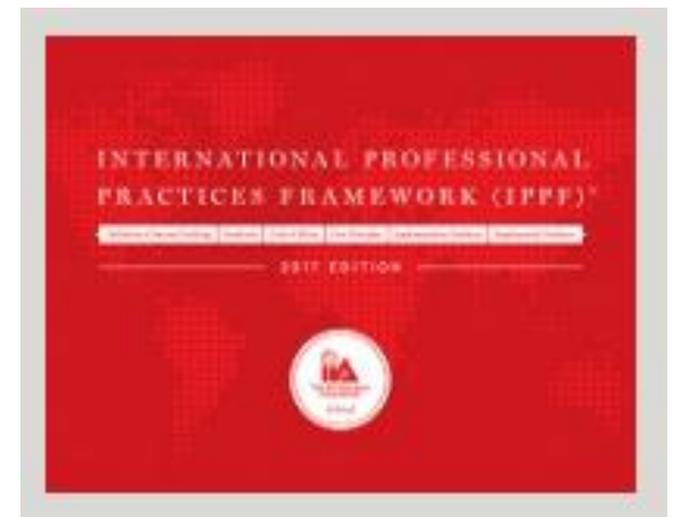


International Professional Practices Framework

Internal Audit conducts their work based upon guidance from the Institute of Internal Auditors (IIA).

The guidance includes the following:

- ❖ International Standards for the Professional Practice of Internal Auditing
- ❖ Code of Ethics



Effective Governance



INTERNAL AUDITORS ASSESS RISKS...

- ❖ To help keep bad things from happening
- ❖ To help assure good things can happen
- ❖ To help management understand
 - Where their risks are
 - Whether the risks are under control
 - Whether the risks are worth taking

Types of Risk

- ❖ Strategic - Entity wide and they compromise the organization's ability to complete its plan.
- ❖ Operational – relates to processes
- ❖ Financial – relates to accounting and transactions
- ❖ Reputational - Will it “be reported in the news?”
- ❖ Compliance - rules and regulations (includes policies and procedures)

What is Risk?

In simple terms, the risk is the possibility of something bad happening.

It involves uncertainty about the effects/implications of an activity.

Fraud Definition

Black's Law Dictionary defines fraud as "a knowing representation of the truth or concealment of a material fact to induce another to act to his or her detriment."

In a court of law, fraudulent behavior must be knowing and the individual must have intent to do harm.

Types of Fraud

The Association of Certified Fraud Examiners (ACFE) defines fraud as an act committed “either internally by employees, managers, officers, owners of the company, or externally by customers, vendors, and other parties. Other schemes defraud individuals rather than organizations.”

Why Does Fraud Occur

The best and most widely accepted model for explaining why people commit fraud is the fraud triangle.

It was developed by Dr. Donald Cressey, one of the first individuals to study how white-collar criminals differ from violent offenders.

There are **three elements** that must be present for fraud:

- **Financial Pressure** - A non-shareable problem that an individual believes they must solve on their own rather than with help from others. (Examples: Personal debt or poor credit, significant financial loss such as from medical bills, and peer or family pressure to succeed)
- **Opportunity** – Perceived ability to commit fraud. (Example: John receives and deposits checks to the bank)
- **Rationalization** – A way that an individual justifies or excuses criminal behavior to maintain a positive image of themselves. (Examples include: “I’m only “borrowing” the money and plan to repay it”; “I’ve been working with the company for 15 years. They owe it to me.”; and “The company won’t even realize this amount is gone; it’s not that much.”)





Behavioral Red Flags

Fraud can be committed by anyone.

❖ Living beyond ones means

❖ An unwillingness to share duties

❖ Financial difficulties

❖ A refusal to take vacations

❖ Rule breakers

❖ A close personal relations with vendors or customers

****** Note: Sometimes these indicators also apply to honest people.**

Ways to Prevent Fraud

- ❖ Conducting periodic employee awareness training.
- ❖ Maintaining an anonymous reporting mechanism such as a "Hotline."
- ❖ Identifying control weaknesses and Management's timely fixing of these gaps.

Definition of Internal Controls

A process affected by an organization's people, designed to provide reasonable assurance in the following categories.

- ❖ Effectiveness and efficiency of operations
- ❖ Reliability of financial reporting
- ❖ Compliance with laws and regulations

Internal Controls are **People** Dependent

Internal Controls:

- ❖ Are Developed by People
- ❖ Guide People
- ❖ Provide Accountability to People
- ❖ Are Carried out by People

Types of Controls

- ❖ **Preventative** - Aim to decrease the chance of error and fraud **before** they occur. These are proactive and focused on quality.
- ❖ **Detective** – Designed to find errors or problems **after** the transaction has occurred. They offer an after-the-fact chance to detect irregularities.

Control Activities

| Preventative: | Detective: |
|-----------------------|----------------|
| Approval | Verification |
| Authorization | Reconciliation |
| Security | Review |
| Segregation of Duties | |



In May 2020, the ACFE surveyed the overall level of fraud in organizations.

"More than half of the survey respondents (51%) indicated that their organization has uncovered more fraud than usual since the onset of the pandemic, with one-fifth indicating a significant increase in the amount of fraud detected."

Recent Areas of Fraud in Higher Education:

- Research and Grants
- Purchasing Contracts
- Assets
- Cybersecurity-Phishing

Area: Research and Grant Frauds

Multiyear fraud scheme by former employees uncovered at Tuskegee University

10/1/21

By: WSFA12 News



- After the university's trustees learned of financial irregularities in grant payments and certain fund accounts, an internal investigation began.
- An investigation by a special review committee and law enforcement began in January 2020.
- It was found that \$500,000 was diverted in small increments from grant funds over multiple years.
- Three employees have been arrested and charged with theft by state law enforcement.

Controls to Mitigate the Fraud Risk

- Monthly reconciliation of grant funds and communication of these to Principal Investigators (PI's).
- Management oversight of grant fund spending.

Potential Questions to Ask:

- ❖ Is the expense reasonable based on the type of work that is being performed?
- ❖ Are there recurring payments to individuals or organizations that are out of the ordinary?

Area: Research and Grant Frauds

FOR IMMEDIATE RELEASE

Tuesday, October 12, 2021

DOJ and University of Washington resolve claims researcher falsified grant application

UW to pay more than \$800,000 including grant funding and penalty



- "Between August 2018 and September 2019, the principal investigator on the grant submitted false documents to the National Science Foundation (NSF)."
- Documents submitted indicated that two researchers had performed work on the grant when in reality, they hadn't.
- "The University will pay the government \$801,756 to resolve allegations under the False Claims Act, which includes restitution and a penalty."
- "The investigation began with a whistleblower complaint regarding work performed under the grant and the grant application."

Controls to Mitigate the Fraud Risk

- Timely review of documentation before its submission. The reviewer should not be the same person that prepares the document.
- Comparison of researchers listed on submitted reports to payroll records.

Area: Purchasing Contracts

Auditor's report recommends ethics training for Fayetteville State University employees

[Steve DeVane](#) The Fayetteville Observer
Published 6:00 a.m. ET Sept. 15, 2021



- The North Carolina State Auditor's Office launched an investigation into Fayetteville State University (FSU) after receiving 35 allegations, including a significant number of complaints questioning the appropriateness of operational and management decisions. The investigation focused on allegations of fraud, waste, and abuse.
- The report included a review of landscape management contracts that FSU officials executed without approvals required by university policy.
- The newly hired Chancellor in March 2021 responded, saying that FSU's policies were not followed and were incomplete. It was found that the associate vice chancellor didn't show a commitment to integrity and ethical values in handling the contracts.

Controls to Mitigate the Fraud Risk

- Review of contract approvals and verification that the appropriate individuals authorized services based on University Policies and Procedures.
- Maintaining a list of authorized approvers for purchases and contracts and communicating approver responsibilities.

Area: Assets

Former Yale Administrator Charged in Computer Thefts

A former Yale University administrator faces federal fraud and money laundering charges related to the theft of millions of dollars in computer equipment from the university's medical school.

By [Associated Press](#)

Sept. 4, 2021



- A former administrator who served in various school positions, including the director of finance, faces federal fraud and money laundering charges.
- "Prosecutors alleged that beginning in 2013, that the woman ran a scheme that involved ordering millions of dollars in computer hardware from Yale vendors, then shipping the equipment to an out-of-state business in exchange for money."
- The woman, who was authorized to make purchases below \$10,000 for the school without additional approval, falsified forms to make it look like the equipment was needed for projects at the medical school.
- "The out-of-state business then resold the computer hardware to customers and paid the woman by wiring funds into an account of a company in which she was a principal."
- She pleaded guilty in U.S. District Court to mail fraud, wire fraud, and money laundering.
- Yale issued a statement saying they are "working to identify and correct gaps in its internal financial controls."

Controls to Mitigate the Fraud Risk

- Management oversight on spending. Is the purchase justified?
- Review of the purchaser and receiver documentation to see if they match.
- Review of the shipment destination. Was it going to the individual's house or directly to the out-of-state business?

Cybersecurity-Phishing

- "Schools and colleges have been preyed upon by specific types of phishing campaigns, including spear-phishing and Business Email Compromise (BEC) attacks.
- Spear phishing attacks are typically aimed at specific individuals or departments within an organization.
- In a BEC attack, cybercriminals impersonate a trusted party to try and obtain fraudulent invoice payments or other funds.
- From June through September 2020, a cybersecurity group found more than 1,000 educational institutions were targeted.

A few specific attacks included:

- *NBC News* revealed that hackers stole student and employee social security numbers, including financial information. Some of these details were posted online.
- *ABC News* revealed that the University of Colorado and the University of Miami were attacked in January 2021, giving the hackers access to personal data and some health, study, and research data.



Controls to Mitigate Fraud Risk

- Provided anti-phishing education and awareness campaigns for users.
- Systematic detection controls. (i.e., External Sender Notification)
- Use of the organization's VPN connection.

Reminder: "These scams are not just through email. Criminals use texts, phone calls, postal mail, social media, anyway they can start a conversation."

Fraud and Impacts on the Future

Grant Thornton and the ACFE partnered in a joint survey on fraud trends for the future. The results were published in 2021, and they include the following:

51% of organizations have uncovered more fraud since the onset of the pandemic

71% expect the **level of fraud** impacting their organizations to increase over the next year



Technological challenges are expected to affect an increasing number of organizations' anti-fraud programs



Shifts in **business operations** and **changing consumer behaviors** are the top two risk factors expected to impact the fraud risk landscape in the coming year

The most common **pandemic-related challenges** facing anti-fraud programs are changes to investigative processes and changes in the control/operating environment



FIG. 4 Expected change in specific fraud risks over the next 12 months

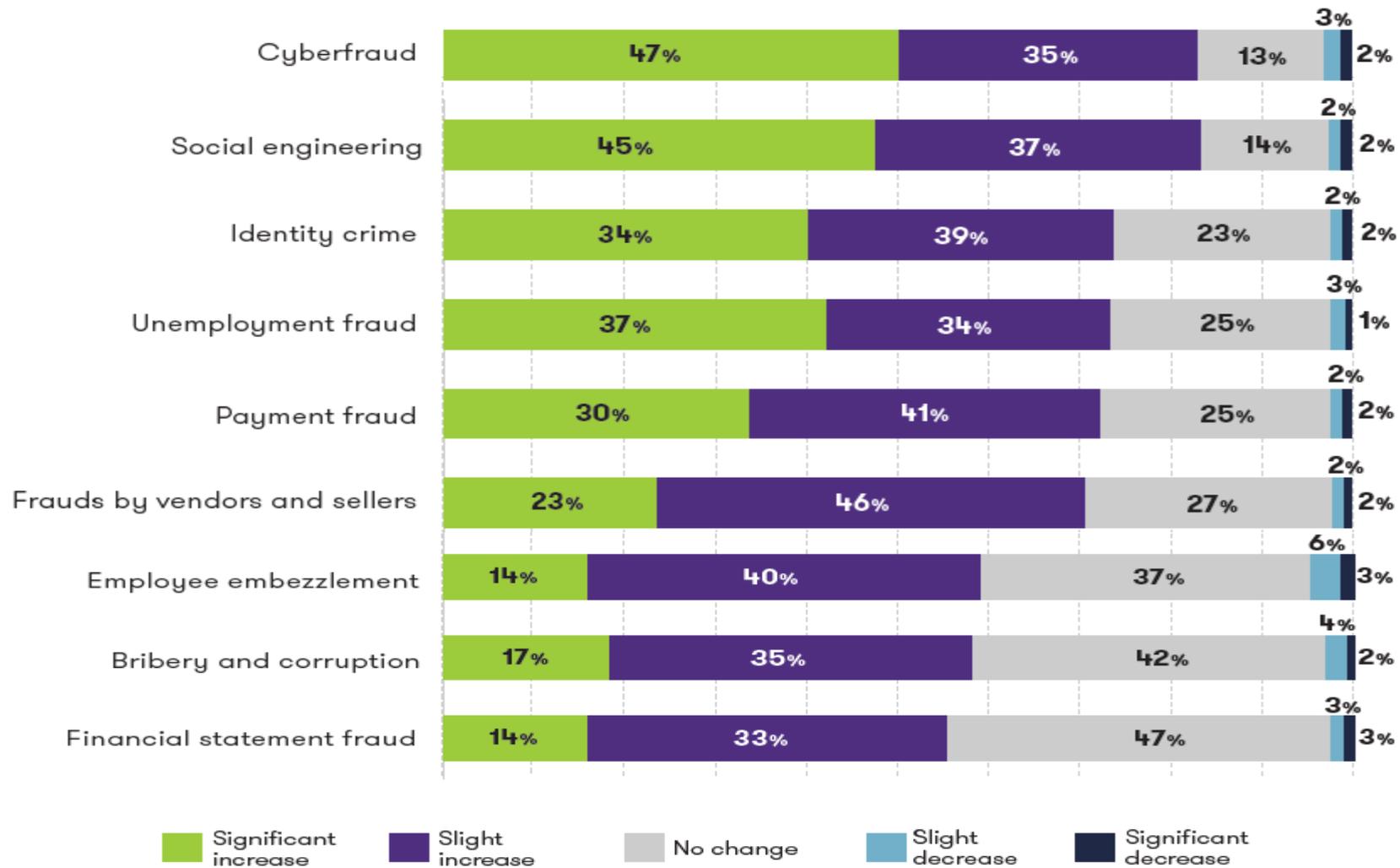
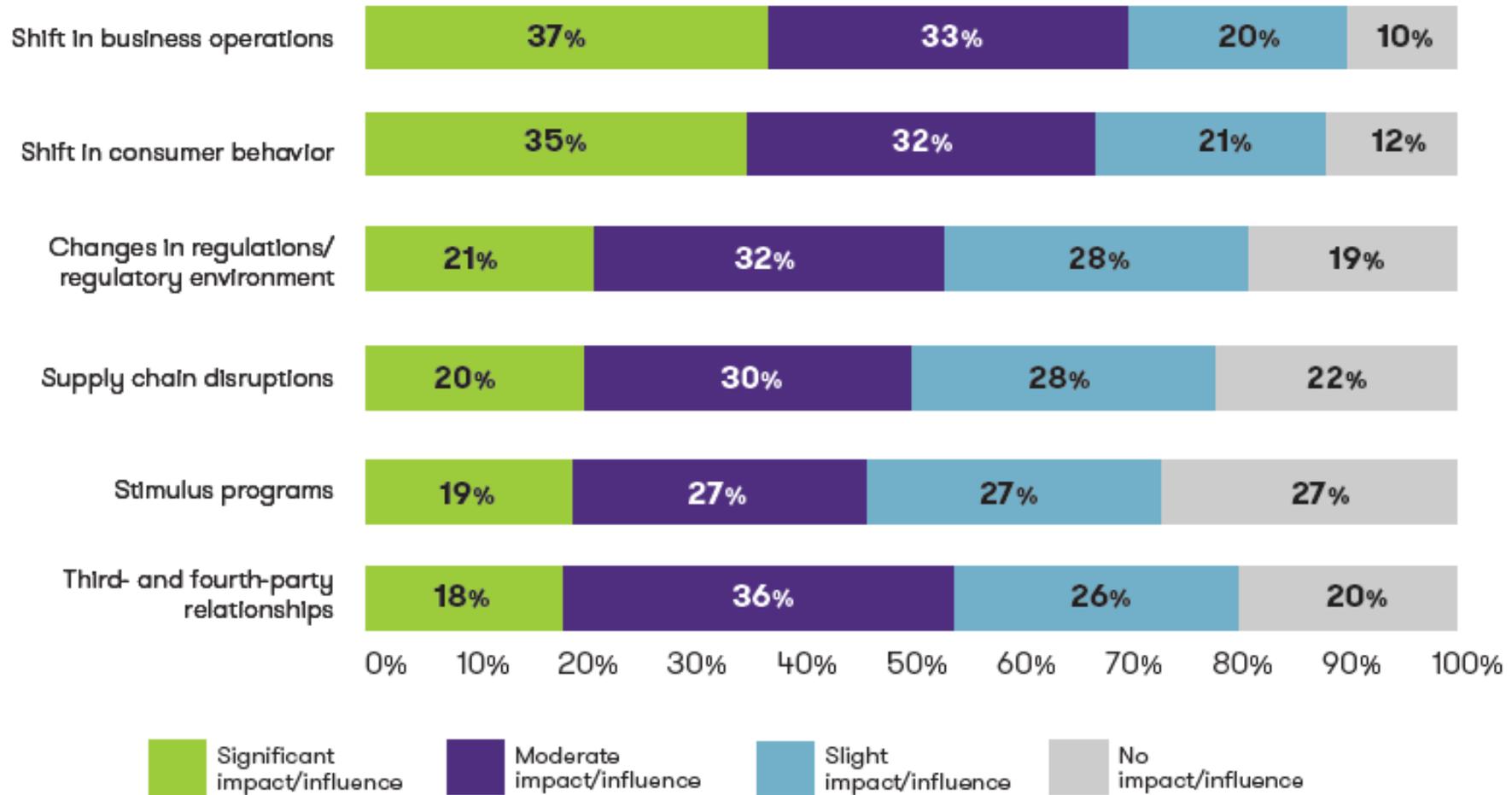


FIG. 6A Fraud risk factors since the onset of the pandemic



Your Role

It is hard to report someone, especially if that person is your colleague. However, even though it may be difficult, the alternative can be more damaging.

According to the ACFE, there are at least two specific instances that warrant reporting:

- If someone you work with asks you to do something that you think is illegal or unethical.
- If you suspect that someone in the company is committing fraud or abuse regardless of their position.



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CLICK HERE TO REPORT FRAUD, WASTE & ABUSE TO THE UNIVERSITY COMPLIANCE HOTLINE

The Internal Audit Department was established at UNC Charlotte in September 1973 in response to a recommendation by the North Carolina Governor's Efficiency Study Commission that internal auditing be coordinated and expanded at all state universities. D. Ronald Whitley, a former state auditor, was hired as the first Internal Auditor for the University.

The Internal Audit Department serves the Board of Trustees and administrators of the University of North Carolina at Charlotte as an independent, objective assurance and consulting activity designed to add value and improve the University's operations. The Department assists the University in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.



QUESTIONS

