Fraud Awareness Training

Jana Clark, Chief Audit Executive
Kansas State University Internal Audit
October 21, 2021
Agenda

- Fraud – what does it mean
- Policy
- Fraud Triangle
- Three main types
- Profile of a fraudster
- RED FLAGS of fraud
The “F” word!

Legal:

“A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment.” *Black’s Law Dictionary, 3rd Ed. Criminal or civil fraud (tort)*
The “F” word!

Working:
A form of employee misconduct where an employee uses deceit to take (steal) or misuse an employer’s resources. The IIA Fraud Awareness Training, March 16, 2017
PPM Chapter 3230 - Reporting Fraud

• Definition
• Responsibilities
• Reporting Fraud
• Whistleblower Act
THE FRAUD TRIANGLE

Opportunity

Rationalization

Pressure
The Fraud Diamond

- Opportunity
- Rationalization
- Capability
- Pressure
Fraud Triangle - Opportunity

• WEAK INTERNAL CONTROLS
• POOR TONE AT THE TOP
• INADEQUATE ACCOUNTING POLICIES
Fraud Triangle - Rationalization

• “I’m a hard worker and they’re not paying me nearly enough in salary. They owe me.”
• “I really need this money and I’ll repay it when I get my paycheck.”
• “Upper Management is doing it too!”
Fraud Triangle - Pressure

• Personal financial problems
• Survival
• Status pressure
• Unrealistic performance goals or performance goals tied to financial measures
Main Types of Fraud

- Asset misappropriation
- Corruption
- Financial Statement fraud
Asset Misappropriation

Cash

– On hand (petty cash)
– Cash receipts (accounts receivable)
– Fraudulent disbursements
  • False invoices
  • Personal purchases with University funds
  • Falsified hours and/or salaries
  • Requesting reimbursement for personal expense
  • Forging signature on checks
  • Altering payee info
  • False refunds/voids
Asset Misappropriation (cont’d)

• Inventory
  – Misuse
    • Use not associated with intended use
    • Vehicles, supplies, computers, other office equipment
  – Theft
Corruption

- Conflicts of interest
- Bribes – taking or offering
- Blackmail
- Embezzlement
- Tax evasion
- Forgery
- Nepotism or favoritism
Profile of a Fraudster

Demographics

Gender:
Age:
Position:
Tenure:
Department:

Highest Frequency

• Male
• 31 – 45 Years
• Employee
• 1 – 5 Years
• Accounting

2020 ACFE Report to the Nations
RED FLAGS

• Living beyond one’s 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
### RED FLAGS (cont’d)

#### PERPETRATOR’S POSITION

<table>
<thead>
<tr>
<th>Owner/Executive</th>
<th>Employee</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>24%</td>
<td>Unusually close association with vendor/customer</td>
<td>16%</td>
</tr>
<tr>
<td>21%</td>
<td>Control issues, unwillingness to share duties</td>
<td>8%</td>
</tr>
<tr>
<td>22%</td>
<td>“Wheeler-dealer” attitude</td>
<td>9%</td>
</tr>
<tr>
<td>18%</td>
<td>Irritability, suspiciousness, or defensiveness</td>
<td>10%</td>
</tr>
<tr>
<td>23%</td>
<td>Financial difficulties</td>
<td>35%</td>
</tr>
<tr>
<td>4%</td>
<td>Complained about inadequate pay</td>
<td>11%</td>
</tr>
</tbody>
</table>

#### PERPETRATOR’S GENDER

<table>
<thead>
<tr>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>24%</td>
<td>Financial difficulties</td>
</tr>
<tr>
<td>11%</td>
<td>Divorce/family problems</td>
</tr>
<tr>
<td>2%</td>
<td>Instability in life circumstances</td>
</tr>
<tr>
<td>24%</td>
<td>Unusually close association with vendor/customer</td>
</tr>
<tr>
<td>16%</td>
<td>“Wheeler-dealer” attitude</td>
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<tr>
<td>8%</td>
<td>Complained about inadequate pay</td>
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</tbody>
</table>
Lifestyle Changes

• Vacations
• Vehicles
• Clothing
• Donations/gifts
• Homes/renovations
• Personal grooming
• Business/investments
• Recreational activities
Behavior Changes

• Brags about purchases
• Possesses unusual amount of cash
• Borrows money from co-workers
• Collection calls at work
• Outside business calls at work
• Irritable/moody
• Takes PTO in small increments (a day here, a day there)
• Redoes or rewrites work to “make it neat”
Common Behavior Changes (cont’d)

• Unreasonably upset when work is questioned
• Comes in early or stays late
• Communicates family/financial problems
• Absenteeism
• Manipulative behavior
• Looks/acts ill
• Illogical/inconsistent decisions/actions
• Sleep loss
• Appetite loss
• Frequent complaints about work
• Decreased productivity
• Irregular schedule
How is Fraud Detected?

- Tips
- Internal Audit
- Management review
- Account reconciliations
- Document examination
- By accident
- Confession
- External audit
- Surveillance/monitoring
- Notified by law enforcement
What Can You Do?

• If you see something, say something
• Ask questions
• University and department policies
• Appropriate internal controls
  – Timesheets
  – Inventory
  – Reviews
  – Segregation of duties
## Cash Handling

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Duty Category</th>
<th>Ideal: 4 person</th>
<th>Good: 3 person</th>
<th>Minimal: 2 person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handling cash</td>
<td>Asset handling</td>
<td>Employee 1</td>
<td>Employee 1</td>
<td>Joint – Employees 1 &amp; 2</td>
</tr>
<tr>
<td>Prepare deposit</td>
<td>Booking</td>
<td>Employee 2</td>
<td>Employee 2</td>
<td>Joint – Employees 1 &amp; 2</td>
</tr>
<tr>
<td>Reconcile receipts to deposit</td>
<td>Booking</td>
<td>Employee 3</td>
<td>Employee 3</td>
<td>Employee 2</td>
</tr>
<tr>
<td>Record deposit to GL</td>
<td>Booking</td>
<td>Employee 3</td>
<td>Employee 3</td>
<td>Employee 2</td>
</tr>
<tr>
<td>Making cash deposit at Cashier’s Office</td>
<td>Asset handling</td>
<td>Employee 1</td>
<td>Employee 1</td>
<td>Employee 1</td>
</tr>
<tr>
<td>Compare deposit to GL entries</td>
<td>Reconciliation</td>
<td>Employee 4</td>
<td>Employee 3</td>
<td>Employee 2</td>
</tr>
</tbody>
</table>
# Purchasing

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Duty Category</th>
<th>Ideal: 4 person</th>
<th>Good: 3 person</th>
<th>Minimal: 2 person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order initiation</td>
<td>Asset Handling</td>
<td>Employee 1</td>
<td>Employee 1</td>
<td>Employee 1</td>
</tr>
<tr>
<td>Order approval</td>
<td>Booking</td>
<td>Employee 2</td>
<td>Employee 2</td>
<td>Employee 2</td>
</tr>
<tr>
<td>Confirmation of receipt of goods</td>
<td>Asset Handling</td>
<td>Employee 3</td>
<td>Employee 1</td>
<td>Employee 1</td>
</tr>
<tr>
<td>Payment of invoice</td>
<td>Booking</td>
<td>Employee 2</td>
<td>Employee 2</td>
<td>Employee 1</td>
</tr>
<tr>
<td>Ledger review and certification</td>
<td>Reconciliation</td>
<td>Employee 4</td>
<td>Employee 3</td>
<td>Employee 2</td>
</tr>
</tbody>
</table>
# Billing & Receivables

<table>
<thead>
<tr>
<th>Responsibility</th>
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<th>Ideal: 4 person</th>
<th>Good: 3 person</th>
<th>Minimal: 2 person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review and approval of billing data included on bills</td>
<td>Booking</td>
<td>Employee 1</td>
<td>Employee 1</td>
<td>Employee 1</td>
</tr>
<tr>
<td>Billing adjustment issuance (credit, write-offs, etc)</td>
<td>Asset Handling</td>
<td>Employee 2</td>
<td>Employee 2</td>
<td>Employee 2</td>
</tr>
<tr>
<td>Billing adjustment transaction ledger or billing system recording payment</td>
<td>Booking</td>
<td>Employee 3</td>
<td>Employee 1</td>
<td>Employee 1</td>
</tr>
<tr>
<td>Comparison of AR balance in GL to total billings in billing system</td>
<td>Reconciliation</td>
<td>Employee 4</td>
<td>Employee 3</td>
<td>Employee 2</td>
</tr>
</tbody>
</table>
What Do I Do if I Suspect Fraud?

• Contact IA
  – jjoy@ksu.edu or 785-243-0245
  – olgavolok@ksu.edu or 785-317-4401
  – cbuchan@ksu.edu or 785-817-3313

• Contact KSU Police Department
  – police@k-state.edu or 785-532-6412
Questions?

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