Fraud Awareness & Prevention for Higher Education

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Goals

• Raise your fraud awareness and introduce you to fraud prevention methods.
Disclaimers

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Why?

- Education is a high risk industry (ACFE)
- Trustee survey: about 50% said “no ability to detect fraud.”
- Assessing fraud risk is the responsibility of the oversight body. (GAO) If risk identified, then......
• **Fiduciary Duty (Loyalty, Candor, Care)** – includes fraud prevention since fraud can harm the entity.
Goal #1: Raise you awareness

The following is to test your awareness
What did you learn about our level of awareness?
What is fraud?

- **SIMPLE**: Lying to get something that doesn’t belong to you.

- Deception, concealment, and/or a violation of trust. -------- for gain

- Fraud is committed by individuals and/or organizations to obtain or keep something of value or gain an advantage (cheating)
Value in Higher Education

- Assets, resources, time, intellectual property
- Grants & Contracts
- Grades, assistantships, recommendations
- Financial aid
- Reputations
- Admissions
- Anything tangible or intangible!
Fraud is a Crime!

• Like most crimes, fraud occurs with regularity, does not discriminate, can be of any size, complexity, or duration.

• Failure to report a crime is also considered a crime.
Examples

- Procurement card abuse
- Embezzlement
- Credit card abuse
- Theft
- Asset misappropriation
- Document tampering
- Cheating
Theory: The Fraud Triangle
Theory: 80-10-10 Rule

Refers to a general assumption about the “human element”

- **10%** of the population will NEVER commit fraud. Dominant “Super-ego.”

- **10%** of the population is actively looking to commit fraud. Sociopathic tendencies. Dominant “Id”

- **80%** of the population might commit fraud given the right combination of opportunity, pressure, and rationalization. Us!!!!!
Typical Fraudster
(2014 ACFE Report to the Nations)

- 36% in management, 19% high level executive
- 50% between ages of 36 -50
- 67% male
- 25% w/entity 10+ years
- Living beyond means = key red flag
- 18% in accounting office
- Responsible, trusted, respected employees
Typical Fraud

• Median loss for executive-level = $600,000

• Executive-level fraud lasts an average of 2 yrs.

• Top Causes (how do you eliminate the cause?):
  • Poor internal controls
  • Poor management oversight
  • Management overrides
  • Poor Tone at the Top
Fraud Costs

- **7% – 10%** of revenue lost (ACFE)
- “Bad Press”
- Reputation/Public perception (73% say top risk)
- Employee morale/distraction
- Legal, investigative, corrective action costs
- Lost funding, donations, etc.)
Goal #2: Prevention

Limiting Opportunity

• “Trust but verify”
• Practice skepticism
• Ask questions
• Be proactive (27% said this could have prevented it)
• Anti-fraud system
Anti-Fraud System

• Hotlines or other reporting mechanism
• Cultivate positive Tone at the Top
• Adequate Internal Controls
• Training (35% reduction in losses)
• Meaningful oversight (internal & external)
• Security (passwords, IT monitoring, locks)
Risk Assessment

• Perform a Risk Assessment to identify vulnerabilities at the program level, system-wide or anywhere in between.
Fraud Response Plan

• Have you thought about what to do in the event that a major fraud is identified?
  – Whom do you call?
  – How do you respond?
  – Who should be on the response team?

Deloitte Touche: Only 49% of Board members believe their organizations are prepared to handle a crisis [any] to achieve a positive outcome. Over 80% say either they have no plan or don’t know.

65% believe their organizations are vulnerable to malfeasance!

65% say they have no plans to address an occurrence of malfeasance!
Deterrents & Enforcement

• Fraud risk increases when fraudster’s fear of detection decreases
  – Speeding
  – NO PARKING
  – KEEP OFF THE GRASS
  – NO SMOKING
  – EMPLOYEES MUST WASH HANDS

**We need to be “aware” because no matter what we do, we could be fraud victims.**
QUESTIONS??????

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